THE

ECONOMIC JOURNAL

VOLUME XLII

MACMILLAN AND CO., LIMITED
LONDON · BOMBAY · CALCUTTA · MADRAS
MELBOURNE

THE MACMILLAN COMPANY
NEW YORK · BOSTON · CHICAGO
DALLAS · ATLANTA · SAN FRANCISCO

THE MACMILLAN COMPANY
OF CANADA, LIMITED
TORONTO

THE

ECONOMIC JOURNAL

THE JOURNAL OF

The Royal Economic Society

EDITED BY

J. M. KEYNES and D. H. MACGREGOR

VOLUME XLII

London

MACMILLAN AND CO., LIMITED

NEW YORK: THE MACMILLAN COMPANY

1932

PRINTED IN GREAT BRITAIN BY RICHARD CLAY & SONS, LIMITED,
BUNGAY, SUFFOLK.

THE ROYAL ECONOMIC SOCIETY.

Correspondents:

Prof. Sir J. C. Coyajee for India (University of Calcutta).

Mr. A. Duckworth for New South Wales (Australian Mutual Provident Society, Sydney).

Prof. James Hight for New Zealand (Canterbury College).

Prof. H. A. Innis for Canada (University of Toronto).

Prof. R. Leslie for South Africa (University of Cape Town).

Prof. J. A. Schumpeter for Germany (University of Bonn).

Prof. E. Mahaim for Belgium (University of Liége).

Prof. H. Westergaard for Denmark (University of Copenhagen).

Prof. Charles Rist for France (Collège de France).

Prof. A. Andréadès ,, Greece (University of Athens).

Prof. G. W. J. Bruins for Holland

Prof. A. Loria for Italy (University of Turin).

Prof. F. Bernis ,, Spain (University of Salamanca).

Prof. G. Cassel ,, Sweden (University of Stockholm).

Prof. E. R. A. Seligman for United States (Columbia University, New York).

The Royal Economic Society (incorporated by Royal Charter, 1902) was founded, under the name of the British Economic Association, at a meeting held at University College, London, on November 20th, 1890, the Right Hon. G. J. Goschen, M.P. (the late Viscount Goschen), in the Chair.

The Society has for its object the general advancement of economic knowledge.

The Journal of the Society, published quarterly by Messrs. Macmillan and Co., Ltd., London, and sent post free to Fellows, is intended to represent the various shades of economic opinion, and to be the organ, not of one school of economists, but of all. The Journal numbers among its contributors the leading economists of all countries. Fellows are entitled in addition to the Journal, to copies of sundry other publications issued by the Society from time to time.

By arrangement with the London School of Economics, Fellows of the Royal Economic Society may obtain from the Secretary a card entitling them to the use of the valuable library of that institution.

ROYAL ECONOMIC SOCIETY.

Applications for Fellowship should be addressed by letter to the SECRETARY, Royal Economic Society, 9, Adelphi Terrace, London, W.C. 2. The Annual Subscription is a Guinea. Any Fellow may compound for his future yearly payments by a Life Subscription of Ten Guineas. There is at present no entrance fee. Libraries, Institutions and Companies are admitted to the Society with full rights to receive all its publications on the same conditions as Fellows at an annual subscription of £1 1s. They are entitled to compound their subscriptions for a period of fifteen years on payment of £10 10s.

Books and Periodicals for Review should be addressed to the Editor, Royal Economic Society, 9, Adelphi Terrace, London, W.C. 2.

Editorial Communications should be addressed to J. M. KEYNES, Esq., C.B., King's College, Cambridge.

INDEX TO THE ECONOMIC JOURNAL

VOLUME XLII

ARTICLES :—

REVIEWS :—

REVIEWS (*continued*):—

REVIEWS (*continued*):—

REVIEWS (*continued*) :—

REVIEWS (*continued*):—

NOTES AND MEMORANDA :—

OFFICIAL PAPERS :—

OBITUARY :—

REVIEWERS :—

THE ECONOMIC JOURNAL

MARCH, 1932

ECONOMIC CONDITIONS IN CANADA IN 1931–2

The available statistics on the external trade of Canada point directly to the outstanding effects of the depression.

External Trade.

(Millions of dollars.)

	Total Imports.	Total Exports.	Excess of Exports.	Percentage of Exports to Imports.
1928 . . .	1,109	1,251	+ 142	112·8
1929 . . .	1,265	1,389	+ 123	109·7
1930 . . .	1,248	1,145	– 103	91·7
1931[1] . . .	586	564		

The decline in exports and the appearance of an unfavourable balance in 1930 are significant facts. The character of the trade and the chief countries concerned are shown in the following table:

Export Trade.

(Millions of dollars.)

	1928.			1929.			1930.			1931.[1]
	U.K.	U.S.	Total.	U.K.	U.S.	Total.	U.K.	U.S.	Total.	Total.
Vegetable Products . .	*310*	56	555	*325*	59	647	*187*	49	385	188
Animal Products . .	49	92	166	48	85	159	41	67	133	66
Wood and Wood Products . .	17	*239*	285	22	*236*	289	21	*238*	290	170
Non-ferrous Metals .	16	44	91	16	63	113	15	102	154	67
Total Exports	412	478	1,228[2]	430	500	1,364	282	515	1,120	553

[1] Eleven months. *Canada Yearbook*, 1931, and *Monthly Review of Business Statistics*, December 1931. Unless otherwise stated, statistics in this article are from the above sources.

[2] Excluding exports of foreign produce.

The weakness of the trade situation is shown in the decline of exports of vegetable products, in other words—wheat,[1] as shown in values and volume in the following table :

Total exports of wheat and wheat flour.

(Millions.)

	Wheat.		Flour.		Total Value. Dollars.
	Bus.	Dollars.	Barrels.	Dollars.	
1928 . .	267	352	9	60	412
1929 . .	370	429	11	65	494
1930 . .	177	216	8	45	261
1931[2] . .	173	—	5	—	—

[2] Eleven months.

The price of wheat in Canada declined from a yearly average for No. 1 Northern of 146 cents in 1927–8 to 124 cents in 1928–9, and from 160 cents in July 1929 to 95 cents in July 1930 and 53 cents in September 1931. It moved slightly upward to 67 cents in November.

It is difficult to over-estimate the importance of wheat to Canadian industrial development and to Canada's present problems. The economic and political structure of Canada have been built up in relation to the production and export of wheat. Investments in canals on the St. Lawrence in the 'forties and in railroads in the 'fifties were designed to attract the wheat trade of the western states. Failure to attract this trade was accompanied by the expansion of wheat production, especially in Ontario, which was followed in turn by the construction of the Canadian Pacific Railway and the expansion of wheat production in Western Canada. The deepening of the St. Lawrence ship channel, of the St. Lawrence canals, and of the Welland and the Sault canals, the development of ports and of elevators, and the construction of through lines and branch lines were carried out in relation to

[1] *Exports to United Kingdom.*

(Millions.)

	Wheat.		Wheat Flour.		Total Value. Dollars.
	Bus.	Value. Dollars.	Barrels.	Value. Dollars.	
1928 . .	189	245	3	20	265
1929 . .	230	260	3	17	283
1930 . .	113	140	2	14	154

wheat. Moreover, the expansion of industry in Eastern Canada, and the consequent revolution of eastern agriculture was largely a result of the opening of the West, especially after 1900. The development of the lumber industry in British Columbia and the development of coal-mining and the iron and steel industry in the maritimes were stimulated by the marked increase in the production of wheat.

The rapidity of Western expansion which characterised the period from 1900 to 1914 declined after the war, and industries engaged in meeting the demands for permanent capital equipment, such as railroads, declined in relative importance with relation to the west and were forced to find new markets as in the case of the British Columbia lumber industry, or to become involved in financial difficulties as in the case of the iron and steel industry. Industries engaged in the production of consumers' goods and of less permanent forms of capital equipment, such as agricultural implements, have reached a state of relative stability or have found possibilities of continued expansion in new markets. On the whole, wheat has continued in the war and the post-war periods as the *raison d'être* of enormous investments of capital in Canadian transport, industry, and agriculture, and fluctuations in the volume and value of wheat produced in Western Canada have been registered directly and indirectly in the economic conditions of other parts of Canada. Its influence has been tempered by the growth of mining and of pulp and paper industries, but it remains of basic importance.

A decline in the volume of production and in value of wheat has far-reaching ramifications. The effects on returns on the enormous investments of capital vary as usual with the policy of the organisations concerned, with their opportunities, and with the skill of management, but in the opening of the West, various incalculable and unpredictable factors have been in evidence. Canada emerged as an industrial country at a comparatively late date, and consequently was able to borrow the mature technique of other countries and apply it to virgin natural resources. Her development was therefore rapid. Her political boundaries had been hammered out in relation to the fur trade, and it was necessary to adapt the consequent geographic unit in the northern half of North America to the production of wheat. The importance of cheap water transportation on the St. Lawrence system, the heavy investment of capital on the part of the Government in the improvement of the system, the enormity of the task of bridging a continent and the necessity of accomplishing its

completion in a short period of time were factors requiring substantial Government encouragement and support.[1]

The character of Government support to the improvement of navigation and transportation varied. Improvement of the St. Lawrence system was undertaken as a direct Government work in the case of canals and the Intercolonial railway, and in the form of subsidies and loans in the case of the Grand Trunk and other railways. A cash subsidy, land grant, and numerous minor items of assistance were used in the construction of the Canadian Pacific Railway. Returns on the investments of the Government were obtained through the tariff. A. T. Galt, Minister of Finance, stated in 1862 that "the Government has increased the duties for the purpose of enabling them to meet the interest on the public works necessary to reduce all the various charges upon the imports and exports of the country—all these improvements have been undertaken with the twofold object of diminishing the cost to the consumer of what he imports and of increasing the *net* result of the labour of the country when finally realised in Great Britain."[2] With raw material such as wheat sold on the world market the tariff was devised as a clumsy but effective weapon to secure returns to meet the interest on capital investment. The element of protection was developed in tariffs following the abrogation of the reciprocity treaty in 1866, and especially in the national policy of 1878.[3] The railroads were assisted by the development of industry and traffic under protection, and interest was paid from revenues obtained from duties on goods imported in spite of protective measures.

The problems involved in this method of receiving returns became evident in the sudden and unpredictable expansion of the West after 1900 which followed the completion of the Canadian Pacific Railway and the deepening of the St. Lawrence waterways. The tariff became successful to the point of embarrassment. The marked increase in revenue, the complaints in the West against monopoly,[4] the profits of the Canadian Pacific Railway and the incentive to other lines, the Grand Trunk in the

[1] These points have been developed elsewhere: see *Fur Trade in Canada* (New Haven, 1930), pp. 386–408; "Industrialism and Settlement in Western Canada," *Report of the International Geographical Congress, Cambridge*, July 1928, pp. 369–76; "Transportation as a Factor in Canadian Economic History," *Papers and Proceedings of the Canadian Political Science Association*, Vol. III. pp. 166–84; *A History of the Canadian Pacific Railway* (London, 1923).

[2] Sessional paper No. 23, Legislative Assembly of the Province of Canada, 1862.

[3] See S. J. McLean, *Tariff History of Canada* (Toronto, 1895).

[4] "The Jubilee of the C.P.R.," *Dalhousie Review*, January 1931, pp. 450–55.

East and the Canadian Northern, to build competing transcontinental lines, led to the construction of the National Transcontinental line from Quebec to Winnipeg and its extension in the Grand Trunk Pacific to Prince Rupert in the West and Moncton in the East, and of the Canadian Northern from Vancouver to Montreal. These costly and marginal lines became involved in difficulties with the opening of the war and were forced through bankruptcy into the hands of the Government.[1] Government assistance which through the disappearance of free land took the shape of direct contributions in the National Transcontinental and the guarantee of Government bonds in the case of the Canadian Northern led to Government ownership.

The post-war period has been characterised by attempts under Government ownership to merge various railway systems into the Canadian National Railways. Heavy investments of capital have been made in rolling stock, betterments, branch lines, directly concerned with Western traffic, and in hotels and steamships designed largely to round out the system and to reduce heavy overhead charges. The Government has been concerned with improvement of the St. Lawrence waterways, the enlargement of ports, the building of the Hudson Bay railway and in other developments requiring heavy capital outlays. The Canadian Pacific Railway has expanded the system to maintain and improve its position in the face of Canadian National competition. Expenditures on transport and navigation are indicated in the following table:

Total expenditure on canals, including capital and after deducting income		$ 273,257,959
Total capital liability of steam railways:		
Stocks	$1,426,680,988	
Funded debt	2,539,676,366	
		3,966,357,355
Total rail and canal		$4,239,615,314

The importance of the two large systems is shown as follows:

Capital Liability, 1929.	
Canadian National Railway, 21,563 miles	[2] $2,708,714,992
Canadian Pacific Railway, 14,812 miles	882,890,417
Total	$3,591,605,409

[1] *Government Ownership in Canada.* Moderne organisations formen der öffentlichen unternehmung, Part III, *Schriften des bereins für Sozialpolitik*, 1931, pp. 241–79.

[2]

	Millions of dollars.	
Total long-term debt, 1930, to the Public	1,169	(1931: 1,282)
„ „ „ „ to the Government	1,330	
Total	2,499	

The effects of the decline in wheat production and exports on this huge capital outlay may be suggested. The more conservatively capitalised, earlier built and more strategically located line maintained a dividend rate of 10 per cent. on common stock from 1912 to 1930 and was forced to lower the rate to 5 per cent. in 1931.

The marginal, less elastic,[1] Canadian National system warrants a more detailed analysis. Dependence of its finances on Government support renders its position crucial to an understanding ot the problems of the Government and of Canada. The results of its operation since 1925 were as follows: Canadian National Railways.[2]

The sharp decline in wheat [3] production and export is suggested strikingly in the increased deficit. In some sense the deficit assumed by the Government might be regarded as a continuation of the principle by which the tariff was invoked to support transportation and navigation.

The railroad rate structure, in spite of various attempts to ease its weight on Western Canada, tends to rest more heavily on that area [4] chiefly because of potential water competition in the East. The tariff had in part the effect of increasing westbound traffic in manufactured goods and in that way reducing

[1] For example, in the position of labour the president stated in his 1929–30 report, "It was considered unwise and indeed opposed to national interests to embark upon a wholesale policy which would throw many hundreds of wage-earners out of employment, with attendant economic disadvantages." See a comparison with the C.P.R. as to the inelasticity of maintenance. *The Economist*, November 28 and December 12, 1931.

[2] *Canada Yearbook*, 1931, p. 672.

	Gross operating Revenue.	Net operating Revenue.	Interest on Funded Debt.	Deficit.
1925	245	32	72	42
1926	266	46	71	30
1927	275	42	73	37
1928	305	55	74	30
1929	291	42	77	46
1930	250	22	83	68

[3] The president stated in his 1929–30 report, "There was a decrease in gross revenue of $16,752,948 (6 per cent.) almost entirely due to the reduced crop in the prairie provinces and to marketing conditions as a result of which a large proportion of the grain is still held in this country unsold. The decrease in revenue from grain shipments alone amounted to $15,509,311 and the non-operation of harvester excursions decreased passenger revenue by $1,250,000."

[4] See D. A. MacGibbon, *Railway Rates and the Canadian Railway Commission* (Boston, 1917).

the burden of the railways and in part the effect of providing the revenue by which the deficits on the railways could be met. In combination with Government ownership the tariff served as an effective weapon by which the returns accruing from the application of mature industrial technique to virgin natural resources were retained by Canada.

The effectiveness of this principle begins to show signs of serious weakness. Wheat production in Canada if it has not already reached its limit has approached very close to it.[1] The cream has been skimmed off. The marked increase in immigration and in the importation of capital which characterised the period from 1900 to 1914 and to a less extent the period of the war has shown decided signs of falling off. The effects are cumulative. Falling off in the imports of capital leads directly to a decline in customs receipts and to a decline in railway revenue which benefited extensively from capital importations. Railway deficits increase along with the decline of important measures of paying for those deficits. The possibility of lessening the burden of the railway rates in the West disappears, and with it the difficulty of competing with the newly-opened wheat-producing areas of the world increases. The tariff, especially with the teeth inserted in the application of anti-dumping clauses and orders in council, becomes a means of protecting the Canadian manufacturer without compensation in traffic or revenue, and assists in holding up prices as a further burden to Western agriculture.[2] These long-run factors have been obscured by the more obvious character of short-run factors.

A large portion of the Central wheat-producing area in the prairie regions, notably southern Saskatchewan, has been subject to severe drought, with the result that extensive relief measures have been necessary during this present winter. How far the soil drifting so conspicuous in 1931 may become a permanent feature of Western agriculture is as yet difficult to determine. The demands for relief have been extensive and urgent, and territory which formerly contributed largely to traffic and railway earnings and to revenue from the tariff, has become to some extent a negative area making drains on the federal and provincial

[1] On this whole point see W. W. Swanson and P. C. Armstrong, *Wheat* (Toronto, 1930), Chap. XVII, also W. A. Carrothers, *Emigration from the British Isles* (London, 1929), Chap. XVI.

[2] J. E. Lattimer, "Economic Aspects of the Agricultural Problem," *Proceedings of the Canadian Political Science Association*, Vol. III, pp. 134–44. On the problem of the relatively slow decline of retail prices see recent numbers of the *Canadian Economic Service.*

governments and on the railroads for relief. The wheat crop for 1931 has been estimated at 271 million bushels.[1]

The effect of these long and short run factors on Eastern Canada have been direct but complicated with other developments. The demand for Eastern manufactured products such as agricultural implements has been seriously affected, and the returns on Eastern investments in Western Canada, such as on mortgages, have fallen off materially. The post-war period was characterised, however, by rapid expansion of other important industries and by the importation of capital on a large scale in pulp and paper, mining, hydro-electric power and the tourist trade. The development of the automobile [2] was followed by a marked increase in road construction and in fixed charges. The provinces have spent $326,658,798 on highways, or about one-third of the provincial debt. A total of $32,600,000 on maintenance and $19,300,000 on interest and sinking fund was spent by the provinces on highways in 1929–30, this item quadrupling in a decade.[3] Interest on these heavy capital investments has been met in part by taxes on motor vehicles of about equal amounts from licences and gasolene (a total of $36,217,733 in 1929). In addition, revenue from the liquor traffic totalled $27,599,687. The relationship of these taxes to the tourist trade is difficult to determine accurately, but the decline of the latter has been generally noted. The statistics of 1930 and 1931 are

Total Yield of Wheat.

	Million bushels.
1923	474
1924	262
1925	395
1926	407
1927	480
1928	567
1929	305
1930	398
1931	271

See T. W. Grindley, "Canada's Foreign Trade in Agricultural Products," *Proceedings of the Canadian Political Science Association*, Vol. III. pp. 123–34.

Motor Vehicles.

	Total.	Ontario.
1920 . .	407,064	177,804
1930 . .	1,239,889	564,669

Trucks, 1930.

Total	165,582
Ontario	67,084

[3] See F. W. Chalmers, *Financial Post*, January 9. *Per capita* expenditure on roads and bridges by the provinces increased from 58 cents in 1916 to $1 17 cents in 1921 and to $2 in 1926.

Estimated Expenditure of Tourists in Canada.

(Millions of dollars.)

1925	187
1926	196
1927	230
1928	267
1929	308
1930	280
1931	260

possibly over-estimates and the decline suggests, as in the case of wheat, a decrease of capital imports for the construction of roads and hotels, and consequently a cessation of traffic and industry concerned with these permanent developments, and an immediate decline in the tourist trade with a consequent increase in the burden of fixed charges. The problem is accentuated by the continual increase in capital outlays as part of relief programmes—an increase in fixed charges with little immediate prospect of increase in traffic. The railroads have suffered directly in the returns on heavy hotel investments and indirectly in the serious competition from trucks for the remunerative traffic of more densely populated areas. Municipalities have, along with the provinces, become involved in heavy outlays for highways and with similar results.

Like the tourist trade, the pulp and paper industry is closely linked to the swings of business conditions in the United States. But whereas the tourist trade has been greatly influenced by the rise of the automobile, the pulp and paper industry has been influenced by the marked increase in advertising and the general rise of the marketing problem. The exhaustion of raw materials in the United States, the application of mature technique to virgin natural resources in terms of spruce and water power, and the adoption of measures prohibiting the export of pulpwood on Crown lands, were factors contributing to a marked expansion of the industry in the war and the post-war period. Production of newsprint increased as follows :

	000 tons.
1921	805
1922	1,081
1923	1,252
1924	1,388
1925	1,537
1926	1,889
1927	2,083
1928	2,414
1929	2,725
1930	2,450
1931	2,250 (est.)

Reduction in output has been accompanied by a reduction in prices from 55 to 50 on May 1, 1931, and to 46 in January 1932.

In 1929 it was estimated that the capital invested totalled 645 millions (353 millions Quebec, 297 millions Ontario). The reduction in output and price has accentuated the problems of over-expansion and led to increasing concentration in the more efficient lower cost mills. The financial difficulties of organisations controlling marginal mills—for example, the reorganisation of Canada Power and Paper, and the reduction of capitalisation from nearly 104 millions to 51 millions—will tend to restrict further expansion. Moreover, the exhaustion of the more accessible resources [1] supports the conclusion that marked expansion and importation of capital which characterised the last decade will decline to a marked extent. As in the case of wheat, revenue from customs will accordingly decline as well as the traffic and industry which accompany the installation of new mills.

The expansion of hydro-electric power has accompanied the growth of the pulp and paper industry and has stimulated industry generally.[2]

	Total Turbine Horse-power Installed (thousand h.p.).	Million Kilowatt Hours Generated by Central Electric Stations.[1]
1921 . . .	2,754	5,614
1922 . . .	3,008	6,741
1923 . . .	3,192	8,099
1924 . . .	3,591	9,315
1925 . . .	4,338	10,110
1926 . . .	4,549	12,093
1927 . . .	4,799	14,549
1928 . . .	5,349	16,337
1929 . . .	5,727	17,962 (4,993 Ontario Hydro-
1930 . . .	6,125 (Ontario 2,088,	17,560 Electric Commission)
1931 [2] . . .	— Quebec 2,718)	14,642

[1] Including fuel stations, which produced in 1929 1·5 per cent. of total output.
[2] Eleven months.

The capital invested in central electric stations increased from 485 millions in 1921 to 1,056 in 1929 (314 millions Ontario Hydro-Electric). The rapid expansion in the production of hydro-electric power involved heavy imports of capital and intense activity on the part of the construction industries engaged in installation of plants. Demands for labour, materials and services decline precipitately with the completion of construction operations. In turn the heavy fixed charges involved in enormous

[1] See *Report of the Royal Commission on Pulpwood* (Ottawa, 1924).

[2] Of total installation in 1930, 579,826 h.p. installation was supplied directly by pulp and paper mills, 330,850 h.p. by other industries and 5,214,336 by central electric stations. In 1928 pulp and paper mill motors had a rated capacity of 859,017 h.p.

initial capital investments, especially with large proportions under Government control, and which are generally carried by long-term contracts, prevent substantial reductions to industry.

The mineral industries were closely related to the development of hydro-electric power and expanded rapidly. Production increased as follows :

(Millions of dollars.)

	Total Mineral.	Metallic Mineral.	Copper.	Nickel.	Gold.	Coal.
1922 .	184	60	6	6	26	66
1923 .	214	69	13	18	25	72
1924 .	210	87	14	12	32	54
1925 .	227	106	16	16	36	49
1926 .	240	116	17	14	36	60
1927 .	247	121	17	15	38	62
1928 .	280	141	29	22	39	64
1929 .	311	163 (Ont. 84, B.C. 53)	43	27	40	63
1930 .	279		38 (Ont. 15, Que. 10, B.C. 22)	24 (Ont.)	44 (Ont. 35)	53

The industrial metals declined in value partly as a result of a fall in price and an increase in production, and partly as a result of a decline in production. These metals were affected primarily by the demands of the United States. Gold profited materially by the decline of wholesale prices and the weakening of exchange. The total capital employed in the mining industry increased from 632 millions in 1924 to 867 millions in 1929 (427 millions in the metallic industries). The continued expansion of mining with the marked improvement of prospecting methods may be expected, but with such uncertain regularity as to make prediction impossible. Mining development and production involved the import of capital and the growth of industry and traffic. Moreover, it has been important in reducing the overhead costs of the railways on long stretches of line designed for the handling of wheat but running through otherwise unremunerative territory. In-bound traffic for the mining industry offset to a certain extent the heavy overhead costs involved in handling out-bound traffic from Western agriculture.

The fishing industry in the Maritimes and in British Columbia has felt the effects of the depression from the standpoint of both the domestic and the world markets. The lumber industry of British Columbia and of the other provinces, as in the case of all industries producing construction material, has been particularly subject to depression.

In conclusion, it would appear that the long-run expansion of agriculture has tended to diminish materially and that this tendency has been accentuated by the short-run factors of small crops and low prices. The tourist trade has been subject to marked expansion in the post-war decade, but further expansion in permanent equipment, such as roads and hotels, will be much less in evidence, and during the depression the trade has suffered a decline. The pulp and paper industry similarly was subject to rapid expansion and its rate of expansion may be expected to take a decided drop. Hydro-electric power has had a rapid growth and has received a temporary check, but along with mining will probably expand, though much less rapidly. Mining and hydro-electric power, as is suggested by Beauharnois, still continue to offer free gifts, though probably of a much smaller value. Heavy capital investments involved in the initiation of new developments cannot be expected to continue.

The short-run effects of the depression have been obvious. Unemployment [1] in Canada has increased from about 300,000 in 1930 to about 500,000 in 1931, or over 20 per cent. of the workers (August registration 1931, 397,000 + 130,000 farmers). As relief measures the Dominion Government spent from October 1930 to August 1931 over $2,000,000 direct relief, and under the Unemployment Relief Act of 1930, along with the provinces, municipalities and railroads, about $70,000,000 on relief works, of which perhaps half was distributed as wages. The problem of relief becomes serious in view of the difficult financial position of the provinces and municipalities. The bonded indebtedness of the provinces increased from 644 millions in 1923 to 820 millions in 1929 and was divided in the latter year as follows:

	Millions.	
P.E.I.	2	
N.S.	50	
N.B.	40	
Que.	80	
Ont.	351	(Ontario Hydro-electric and Temiskaming and Northern Ontario Railway)
Man.	77	
Sask.	58	
Alberta	92	
B.C.	77	

[1] The number of families on direct relief in Toronto increased from 3,470 in 1928–29 to 4,622 in 1929–30 and 11,040 in 1930–31, the latter year involving an expenditure of $719,000. In 1930–31 it was estimated that 40,000 people (20,000 adults and 20,000 children) were on relief at some one time. Other centres such as Winnipeg were much less favourably situated. East Windsor, an automobile town and an extreme case, had over 1,100 families on relief in November 1931 in a population of 14,241. For these details I have had the advantage of seeing a manuscript: H. M. Cassidy, *Unemployment and Unemployment Relief in Ontario*, 1929–31.

All of the provinces with the exception of Quebec have been unable to balance their budgets or have balanced them by drawing on reserves. In Saskatchewan the Dominion has assumed responsibility for outlays for relief.[1]

The bonded indebtedness of municipalities increased from 917 millions in 1923 to 1,135 millions in 1929, and was divided as follows :

	Millions of dollars.
P.E.I.	2
N.S.	29
N.B.	21
Que.	293
Ont.	451
Man.	86
Sask.	55
Alberta	78
B.C.	118

The provinces were indebted to the banks to the extent of $38,343,852 and the municipalities to the extent of $113,836,283 on October 31, 1931. The provinces are in some cases planning domestic loans, but with the difficulty of securing capital, the completion of relief works of a useful character, and the attempts of the banks to prevent further borrowing, increased unemployment appears inevitable, and in turn increased direct relief.

The position of the Dominion Government is suggested in the following table :

Receipts from Taxation.

(Millions of dollars.)

Fiscal year March 31.

	Customs.	Excise.	War Tax Revenues (including Sales and Income Tax).	Total (including Post Office).
1928	157	57	150	430
1929	187	64	145	460
1930	179	65	134	446
1931	131	57	106 {35 sales tax, 71 income tax}	356
1932[1]	74	35	88 {36 sales tax, 52 income tax}	228

[1] On the problem of provincial revenues and debts see H. R. Kemp, "Is a Revision of Taxation Forms necessary ?" *Proceedings of the Canadian Political Science Association*, 1931, pp. 185–201; also J. E. Robbins and Neil Jacoby, *The Problem of securing Additional Sources of Revenue for Provincial Purposes : Essays on Canadian Economic Problems*, Vol. III (Montreal, 1930), pp. 16–39. Federal *per capita* expenditures increased from 16·22 in 1916 to $34.15 in 1926, and provincial from $6.71 to $15.38; see J. A. Maxwell, "Expenditures of Canadian Provincial Governments, 1916–1926," *Contributions to Canadian Economics*, Vol. III, pp. 41–52.

Expenditures.

	Interest on Debt.	Pensions.	Public Works.	Subsidies to Provinces.	Total (including Post Office).	Net Debt.
1928 .	129	40	14	13	336	2,297
1929 .	125	41	17	13	351	2,226
1930 .	122	40	18	12	358	2,178
1931 .	121	45	24	17	394	2,262
1932 [1] .	96	28	10	6	431	2,309

[1] Eight months ending November 30, 1931.

With revenues probably totalling about 310 millions in 1931–2 and with estimated expenditures of $430,000,000, and in addition $75,000,000 for relief and $50,000,000 for the Canadian National, the deficit will be approximately $250,000,000.[1]

The uncertainty of the situation has been followed by the closing of the New York market, and loans to meet deficits and further expenditures of provinces and Dominion will necessarily be floated on the domestic market. The National Service loan for 150 millions, closed on December 12th, was over-subscribed to about 215 millions. With the operation of the Finance Act it will be difficult for the banks not to avoid depositing Government bonds with the Dominion Government, to receive in return Dominion notes to finance the purchase of more Government bonds.[2]

[1] The deficit on current expenditure will undoubtedly be much smaller, as large proportions of the year's expenditure will be posted to capital account. I have had the advantage of reading a manuscript: D. C. MacGregor, *Is Canada's Credit Position Sound?* in which the difficulty of analysing amounts from the standpoint of capital and ordinary expenditure is stressed.

[2] On the operation of the Finance Act during the war and the post-war period and its relation to the abandonment of the gold standard in 1929 see the following articles by C. A. Curtis, "The Canadian Banks and War Finance," *Contributions to Canadian Economics*, Vol. III. pp. 7–41; "Credit Control in Canada," *Proceedings of the Canadian Political Science Association*, Vol. II. pp. 101–22; "Canada and the Gold Standard," *Queen's Quarterly*, *Winter*, 1931; "Amendment of Canada's Finance Act Necessary," *Monetary Times*, January 24, 1930; "Present Position of Canadian Dollar largely due to Weakness in Finance Act," *Monetary Times*, October 16, 1931; also E. L. Stewart Patterson, *Financial Post*, March 26, 1931, and A. F. W. Plumptre, "Our Glittering Gold Standard," *Dalhousie Review*, September 1931. The extent of domestic capital available is difficult to appraise. An estimate of January 1, 1931, gives a total capital investment of $17,430,000,000, of which foreign investment constituted about 34 per cent., or $6,375,533,000 (61 per cent. U.S., 35 per cent. U.K.). In 1932 Canada will pay $285,000,000 ($160,000,000 interest plus $125,000,000 repayment) in American funds, or at current rates of exchange $335,000,000. On the other hand, Canadian investments abroad were estimated at $1,904,500,000 (possibly $300,000,000 in foreign bonds), but it is difficult to state how wisely securities were purchased by the investment trusts which developed during the

In some sense this is Canada's first serious depression. The long-run secular trend has coincided more definitely with the short-run trend. The cushion provided by virgin natural resources has for the first time shown signs of serious deflation. Its seriousness has been enhanced by the inelastic character of the financial structure. Government ownership has contributed to this inelasticity through such factors as heavy initial cost of constructing railways, through political influence, through construction during periods of high prices, and through the enormous outlays of capital, especially in transportation, which were only made possible through Government ownership. Conservative banking policy and heavy continual outlays of dividends on the part of large corporations have made for further inelasticity. The substantial profits of private enterprise have paralleled the heavy fixed charges of Government ownership. (The heavy inflexible load contrasts sharply with the violent fluctuations of the supporting economic structure. Hitherto the application of mature technique to virgin natural resources has

boom period. The continued depression of the stock market has, of course, been of first importance. On the other hand, the development of the bond business and the rapid growth of insurance companies since the war are factors which have facilitated the mobilisation of capital. Beyond question there has been a marked and sustained shrinkage in the amount of capital available. Bank balances abroad declined from 200 millions to 75 millions in 1931 partly as a result of the floating of domestic loans and the necessity of using domestic funds for seasonal autumn demands. Canadian securities to the extent of about 50 millions have been dumped back on the Canadian market. The extent to which there has been a flight from the dollar is a debated point, but it has probably been appreciable. The following table has been compiled by Prof. K. W. Taylor for the *Financial Post Business Yearbook*, 1932, and is suggestive in spite of its admitted defects, particularly as to movements of capital.

Millions of dollars.

	1930.		1931.	
	Cr.	Dr.	Cr.	Dr.
Merchandise	894	992	600	605
Specie	25	39	56	2
Freight	69	101	51	66
Tourist	279	113	260	100
Interest	88	273	70	240
Insurance Advertisement	33	32	29	28
Canadians employed in U.S.	4	—	3	—
Non-commercial	42	44	24	28
Total	1,434	1,594	1,093	1,069
Net flow of Capital	238	26	26	24
Balance	—	52	26	—

served to support a balanced economy.[1] In the last decade, in spite of the heavy debt assumed on account of the war, Canada was able by virtue of enormous expansion and the improvement of tax machinery to carry and reduce the load. Rising prices in the boom period in the United States stimulated expansion in Canada in new basic industries, and the period of depression and its serious effects on the prices of raw materials has enormously increased the burden of the debt.[2] A balancing of the budget assumes a marked encroachment by virtue of fixed charges on the position of private enterprise, which has already been in evidence. In the interests of a continued balanced economy it is imperative that the revenue system should be drastically overhauled from a short-run as well as from a long-run point of view, and that the tariff should occupy a less important position.

HAROLD A. INNIS

University of Toronto.

[1] See C. R. Fay, *Youth and Power* (London, 1931), Ch. V.

[2] The decline in prices has been estimated to have increased the burden of the federal debt to the extent of $800,000,000 and all public debts $1,350,000,000. Estimating present prices as 30 per cent. below 1923–27 the weight has increased about $1,000,000,000. These estimates are obviously only stated to emphasise the character of the problem.

NOTES ON PIGOU'S METHOD OF DERIVING DEMAND CURVES

In the Economic Journal for September 1930, Professor Pigou presented a new and extremely ingenious technique for the statistical determination of economic demand curves. It is our purpose to offer certain criticisms of this method, noting certain inherent weaknesses, and pointing out three important contributions of the method which were overlooked by its author.

The essentials of the Pigou method will be reviewed here, not only to refresh the memory of the reader, but also to present a graphical interpretation of the method which will facilitate the presentation of our criticisms.

The orthodox method of obtaining demand curves consists of fitting a mathematical curve to the scatter-diagram of points representing price-quantity relations of a commodity in a large number of successive periods. The price and quantity data plotted are usually either trend-ratios or link-relatives, thus taken to allow or correct for changes in the position of the demand curve over time. The latter technique assumes that the trend movement between two successive periods is inconsequential, while the former is based on the proposition that the trends of price and quantity can be satisfactorily measured. It must often happen that there will be doubt concerning the true trend of series being considered: the secular movement may change abruptly at certain times and the trend be a succession of short lines impossible of satisfactory identification. For example, the consumption of a commodity such as coffee might conceivably fluctuate with the whims of public fancy, now stimulated by advertising campaigns of the trade, only to have the tendency reversed by the pronouncement (given publicity by the makers of a coffee-substitute) of some famous medical authority concerning the dangers of coffee-drinking. The growth might again be regained by publicity for the alleged discovery that *fresh* coffee is beneficial. In such a case, to repeat, the trend-ratio method might fail because of the impossibility of fitting a satisfactory trend.

In this case recourse is usually had to the link-relative method. But we believe that two fundamentally different phenomena are measured by the two methods. Irving Fisher has pointed out

the difference in the field of price movements and the business cycle—specifically, the volume of trade.[1] The correlation of ratios-to-trends of prices and trade attempts to answer the question, Do *high* prices stimulate trade and *low* prices depress it? On the other hand, if link-relatives of prices are correlated with similar changes in trade, the inquiry is, Do *rising* prices stimulate, and *falling* prices depress trade? Similarly with prices and quantities of a commodity. It is possible that *rising* prices, even though they are low (below trend), are the significant phenomena to study, along with *changes* in consumption, rather than its *position* relative to its trend. It seems probable that these two techniques match the important distinction between the nature of the demands for different articles brought out by E. J. Working.[2] Working distinguishes between studies "in which the dependence is placed . . . upon the relationship between production and final consumption" and those where dependence is placed "upon the relationship between price, and, chiefly, the amount of the product which will be taken by dealers and others for future sale or consumption." He refers to the latter as "dealers' demand" or "speculators' demand," as contrasted with consumers' demand. It appears to us that it may well be that consumers' demand curves are best measured by considering trend-ratios, while "speculators' demand" is best shown by a study of link-relatives. Consumers' demand is supposedly a function of the *level* of prices rather than their rate of change, although the latter may be of importance under some circumstances—consumption may be different at a given price according as that price is reached from a previous higher or lower price. Dealers' demand, however, would seem to be predominantly a function of the *direction* of the price movement, and thus might best be measured by link-relatives.

But what is the solution for the difficulty when we want to measure the relation between price and quantity *levels*, but we are unable to fit satisfactory trends? It is in this case that Professor Pigou's method is unique. It is unnecessary to fit any trend: as explained by its author, the method supposes that the demand curve shifts steadily only over short periods of time, allowing the nature of the variation to be different in successive short periods. To be specific, the method takes two successive time intervals

[1] "Our Unstable Dollar and the So-called Business Cycle," *Journal of the American Statistical Association*, Vol. 20 (1925), pp. 179–202.

[2] "The Statistical Determination of Demand Curves," *Quarterly Journal of Economics*, Vol. 39 (1924–25), pp. 517 ff.

(involving three pairs of price and quantity data) as the period during which the change is assumed to be regular. In each such "triad" of points, the second is assumed to lie on a demand curve whose position is midway between the curves on which the first and third lie. The demand curve is supposed to be of the constant-elasticity type—a straight line fitted to the logarithms of price and quantity.

As explained by its author, the method is based on the simple geometrical proposition that through three points in a plane not in a straight line only one set of three equidistant parallel lines can be drawn, if it be agreed which point shall lie on the middle line. This last provision is easily met in the present application, since the points represent data ordered in time. The set-up, using

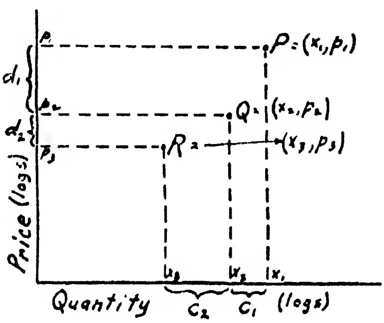

FIG. 1.—The set-up of relations for determining the slope of the lines.

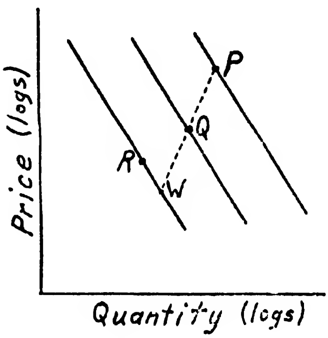

FIG. 2.—Drawing three equidistant parallel lines through any three points not in a straight line.

Pigou's nomenclature, is shown in Fig. 1, where P, Q and R represent the logarithms of quantity and price in a "triad" of observations. Fig. 2 shows the simple geometry of the construction of the lines. A line P W is constructed, of which Q, the point representing the middle period, is the bisector. The line R W is one of the three parallel lines sought, and its slope, $\frac{d_1 - d_2}{c_1 - c_2}$,[1] is the quantity whose reciprocal gives the elasticity of demand for this

[1] Professor Pigou errs (*loc. cit.*, pp. 391, 392) in attaching to this fraction either a $\pm$ sign or a minus sign, and in stating, "Thus two triads of lines can be drawn through our three points, the slopes of the lines in each triad being equa numerically but of opposite sign." It is well for his method that the solution is *not* thus ambiguous. The slope may turn out to be either positive or negative, but the same formula is used in both cases, and the correct sign will appear after substituting the values for d_1, d_2, c_1, and c_2. The $\pm$ sign implies that *either* sign may be used, and this is untrue: in a given case the sign will be determined by the above fraction as it stands. Pigou does not carry over this error to his numerical examples.

triad of observations.[1] Little faith is to be placed in this coefficient for a single triad. It is only on a careful study of the whole distribution that Pigou bases his very modest claims for the method.

Professor Pigou logically suggests the use of the median of the elasticities, after first discarding all positive figures as *a priori* not *demand* elasticities. He also suggests quite rightly that the results of any triad be discarded "when the differences among either the observed prices or the observed quantities in a triad are very small," because, when the shifts in the demand curve are small, "the resulting proportionate error is likely to be very large." The reference seems to be, as later indicated, to the "deviation from equality between the distance of the second line in the triad from the first and the distance of the third line from the second."

There is another type of error, however, to which all individual items of price and quantity are subject, whose effect on the accuracy of the method should be considered—the ordinary errors of observation and of sampling. Each price observation is derived through both sampling and averaging, and each quantity figure is usually partially an estimate, or at least based on data of unknown reliability. Each point representing a price-quantity observation, then, must be regarded as one point selected from a small cluster of points. Is the tendency of the method to minimise or to exaggerate the effect of these errors? Fig. 3 gives an idea of the influence of chance errors on the determination of the slope of the three parallel lines, and thus on the elasticity coefficient. For simplicity it is assumed that observational errors occur only in the one point Q, the points P and R being strictly accurate. Let the five points at Q represent the range of values this point might take by chance. Remembering the method of construction, the points Q bisecting the construction line or lines P W, it is evident that the errors in the point Q are *doubled* at W. The strong effect on the slope of the line R W which is sought is evident. Errors in the other two points P and R might compensate for those in Q, but the likehood is as great that the errors would be cumulative rather than compensating. Pigou noted the

[1] Pigou fails to note that the coefficient of elasticity is the *reciprocal* of the slope. In his numerical examples he reaches the correct result by chance, since (*loc. cit.*, pp. 396–99) in the calculation tables he switches the nomenclature of his variables, using d (equals $p_1 - p_2$) to denote *consumption* logarithm differences, and c (equals $x_1 - x_2$) to denote *price* logarithm differences, contrary to his previously expressed terminology (on p. 391). The formulas on p. 393 are correct for the coefficient of elasticity of demand (not the slope). A double shift is made when applying these formulas (*e.g.* p. 396), both inverting and changing variables, so a correct result is obtained by chance.

necessity of discarding triads of points which are too closely grouped; but how accurate are the results even when the three points are widely separated? It is impossible to say.[1] And how close may the points cluster before they must be discarded? An objective answer seems impossible.

Now, similar errors of observation occur, of course, when the trend-ratio scatter-diagram method is employed: each dot must be looked upon as an indistinct blur. But it is important to note that in the scatter-diagram method, no single point is given much weight in fitting the demand curve: there is safety in numbers, while in the Pigou method each triad of points must stand alone.

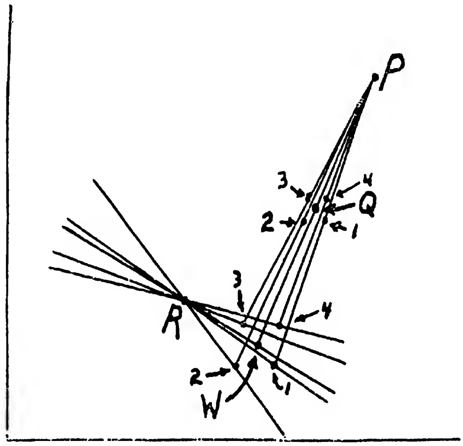

FIG. 3.—Influence of observational errors on slope determination of the Pigou parallel lines.

The result is a tremendous dispersion introduced into the array of the individual "triad elasticities" which must be "averaged out" in the treatment accorded the array to find the typical or representative elasticity coefficient. This extreme dispersion among the items in the arrays would seem to be inevitable, and to detract from the reliability of the results secured by the method.

One of Pigou's aims, to obtain a measure of the reliability of the resulting coefficient of elasticity, seems to have been attained only in small part, in simply considering especially "the limits within which half of the unrejected observations lie." The coefficient of correlation and the standard error of the regression

[1] It is evident that the distorting influence of observational errors increases as the distance of the point R from the point W decreases—the nearer the three points P Q R tend to lie in a straight line. We shall later note the significance of this condition.

coefficient (the coefficient of elasticity of demand) offer objective measures of the reliability of the results of the scatter-diagram method. Again, the present method is limited from examining for the existence of a curvilinear demand curve (on double logarithmic scale), or an elasticity of demand which differs at different levels of price and quantity. The assumption of constant elasticity is essential to the method.

On the other hand, it appears to us that there are theoretical possibilities of extreme importance in the Pigou method which have been overlooked by its author. To show these we must first turn to a phase of the statistical determination of "demand" curves by all other methods. Several writers[1] have pointed out that the correlation or scatter-diagram method generally used is based on the assumption that the data, representing instantaneous equilibrium points of demand and supply, actually trace out over

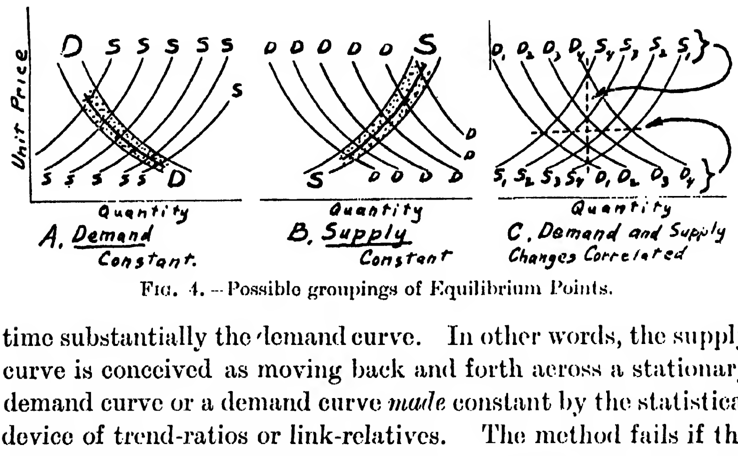

FIG. 4.—Possible groupings of Equilibrium Points.

time substantially the demand curve. In other words, the supply curve is conceived as moving back and forth across a stationary demand curve or a demand curve *made* constant by the statistical device of trend-ratios or link-relatives. The method fails if the changes in supply are *correlated* with the changes in demand: the same is true of two newer methods, those of Wassily Leontief[2] and Paul Douglas.[3] The situation may be represented by Fig. 4. The conditions assumed are shown in A, where demand has remained substantially fixed while the supply curve has fluctuated

[1] P. G. Wright, Review of Schultz's "Statistical Laws of Demand and Supply," *Journal of the American Statistical Association*, Vol. 24 (1929), p. 213. E. J. Working, "What do Statistical 'Demand Curves' Show?" *Quarterly Journal of Economics*, Vol. 41 (1926–27), pp. 225–27. Elizabeth W. Gilboy, "Demand Curves in Theory and Practice," *Quarterly Journal of Economics*, Vol. 44 (1929–30), pp. 608–14.

[2] "Ein Versuch zur Statistischen Analyse von Angebot und Nachfrage," *Weltwirtschaftliches Archiv*, Band 30 (II), 1929, pp. 1–48.

[3] "Technological Unemployment. Measurement of Elasticity of Demand as a Basis for Prediction of Labor Displacement," *Bulletin of the Taylor Society*, Vol. XV, No. 6 (December 1930), pp. 254–61.

in a manner *not correlated* with the small demand variations. The resulting scatter yields an accurate demand curve. Fig. 4 B shows the corresponding situation which yields a supply curve. If, however, the shifts in demand and supply are correlated either directly or inversely, as in Fig. 4 C, it is obvious that the equilibrium points trace out neither a demand curve nor a supply curve, but one bearing no relation to either. As remarked by Working, the curve thus obtained has a definite meaning, and may be more valuable than either the true demand or supply curve for certain purposes, such as price forecasting, but this does not bear on our present problem of finding the true demand curve. And we might expect to find this relationship of correlated shifts in the case of many commodities for which both the demand and supply fluctuate with the phases of the business cycle, *e.g.* producers' goods.

In cases where demand and supply changes are at all correlated, then, all other methods fall down in obtaining the demand curve. It is evident, from the nature of the solution, that the Pigou method also falls down when there is *perfect* correlation in a given set of three years, for this results in the three points of a triad lying equidistant on a straight line. Through three such points an infinite number of sets of three equidistant parallel lines may be drawn, so the slope and elasticity of demand are indeterminate. This is also evident from the formula for the slope, $\frac{d_1 - d_2}{c_1 - c_2}$, for the condition of perfect correlation (coupled with the assumptions of the Pigou method) mean that $d_1 = d_2$ and $c_1 = c_2$. The slope then reduces to $\frac{0}{0}$, which is indeterminate.

But if the movements in the supply curve are only *imperfectly* correlated with those of the demand curve (as is actually true in Fig. 2), the solution of the problem is given by the Pigou method (aside from the difficulties of errors of observation previously noted). The Pigou method, then, is unique in that, given accurate data meeting the conditions laid down, it will yield the true demand curve even though changes in supply are (imperfectly) correlated with changes in demand.

An even more astounding potentiality of this technique was overlooked by its author. The method may, in the case of such imperfectly correlated demand and supply changes, yield *both the demand and the supply curves.* Consider, for instance, a triad of periods where the *supply* curve has shifted by two equal distances, but where the demand changes have not obeyed this fundamental

condition. The situation is shown in Fig. 5. The three points P, Q, and R in this case uniquely determine the slope of the *supply* curve: the formula $\frac{d_1 - d_2}{c_1 - c_2}$ will yield a *positive* value for the slope.

In other words, the analysis carried out by Pigou, assuming the *demand* curve to shift by equal intervals in each triad of periods, could equally well be followed through assuming the *supply* curve to shift thus. Or, as the matter works out, when the different triads are "solved" for the slope (or its reciprocal, the coefficient of elasticity) of the lines, the sign of the resulting figure will tell whether the curve obtained is the demand curve or the

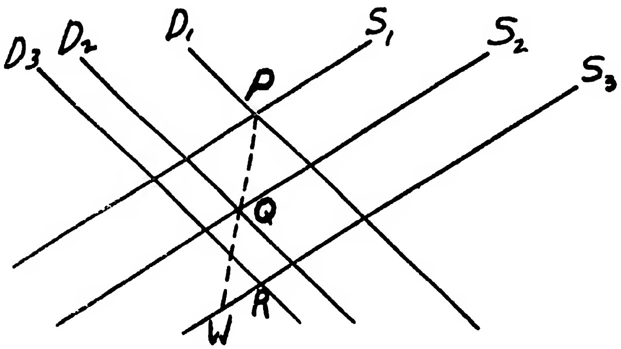

FIG. 5.—Showing where the Pigou method yields the supply curve.

supply curve—whether the condition of a regular shift of the demand curve or a uniform shift of the supply curve has the more nearly been met. It may well be that in the data for a given commodity some triads will meet the first condition and others the second. In this case *both* demand and supply elasticities will result—with what degree of accuracy is another matter.

The case can be illustrated from the work of Pigou himself: for the second illustration of his method he worked over the monthly data on copper sold and copper prices in the United States which had been used by Leontief. In this example, out of 58 individual elasticities (each from one "triad" of months), 38 were positive and only 20 negative (including those infinite). So in finding the typical demand elasticity (negative), Pigou was forced to discard on *a priori* grounds 65 per cent. of the cases. If these positive items had been subjected to the same analysis

as the negative items (separately, of course) they would have yielded the coefficient of elasticity of the *supply* of copper for the period covered. This coefficient would have the same degree of accuracy and trustworthiness possessed by that for demand: in this particular instance we agree with Pigou that the nature of the data prevent the yielding of results of much significance.

A further consideration must be noted in connection with this property of the method. When correlation exists between the shifts of the demand and supply curves in a given triad, the higher the correlation, the closer will the three points lie to a straight line, and thus, as previously shown, the less reliable will be the resulting elasticity. Now it is evident that only in the case of *perfect* correlation could both conditions be met—some of the triads yielding positive and some negative elasticities, while still answering the requirement that one of the curves shift by equal amounts in each triad. The result is that the obtaining of both elasticities from one set of data is at the expense of the accuracy or dependability of both of the measures. Or, expressed otherwise, the existence of a number of positive measures in a group predominantly negative (or vice versa) is an evidence that the fundamental condition of uniform shifts within each triad has not been fulfilled.

In connection with the determination of the supply curve, one consideration should be noted. Many economists question whether the concept of a supply curve is correlative with that of a demand curve—whether quantities supplied by sellers are a function of the price, or if they are not rather related to the *expected price changes*. This observation is accurate and suggestive, but it should be noted that this is a criticism of the orthodox concept of the supply curve, and not a criticism of the statistical technique of determining this supply curve if it exists. This distinction is analogous to that made above between the nature of consumers' and dealers' demand curves—demand as a function of the level or of the change of price.

The drawbacks of the Pigou method previously mentioned must not be overlooked: the fundamental weakness of large dispersion caused by unknown errors in the data, and the fact that the condition of absolutely uniform shifts of one or the other curve between the three points of a given triad, is not met. But the method is unique in the important characteristic that correlation between shifts in the positions of the demand and supply curves does not invalidate the technique. Again, as with the Leontief method, the necessity of fitting trends to the price and quantity

data is obviated: likewise supply elasticity may be yielded. Perhaps further refinements may be made in the method so as to render its results more trustworthy.

WIRTH F. FERGER

University of North Carolina.

The Editor has invited me to comment on the above. In the first footnote of his interesting article Professor Ferger convicts me of an inexcusable blunder, which fortunately, as he says, is not carried through into the body of my article. In his second note he has detected a stupid slip: I have turned a fraction upside down. It was not, I hope, merely "chance" that caused me to turn it the right way up again in working my examples. Perhaps I should add that errors have been found in some of these numerical workings. They have been corrected in the version of the article printed in Mr. Robertson's and my *Economic Essays and Addresses*. On the general question whether my method or kindred methods can usefully be used to evaluate elasticity of supply I am less optimistic than Professor Ferger. Though, of course, as a pure matter of statistical technique, the demand and supply problems are on all fours, difficulties connected with the time element are much more serious on the supply side, and the real significance of the statistical result is consequently much more dubious.

A. C. PIGOU

MEMBER BANK RESERVES IN THE UNITED STATES

A REPORT[1] recommending far-reaching changes in the bank-reserve system of the United States has recently appeared, which marks a great advance on any previous official document dealing with this matter. According to newspaper reports, its recommendations are meeting with some opposition. But the authoritative membership of the Committee (Mr. Smead, a leading officer of the Federal Reserve Board, as Chairman; the Deputy Governors of the Reserve Banks of New York, Cleveland and San Francisco; and Mr. Goldenweiser, the Director of the Division of Research and Statistics of the Federal Reserve Board; with Mr. Riefler as Secretary) leads one to hope that the document may not suffer the common fate.

The Committee begin by analysing the purpose of legal requirements for Member Bank reserves, and lay down four general principles:

(i) It is no longer the primary function of these requirements to ensure the liquidity of the individual Member Banks, which depends much more on their possessing eligible paper than on their legal reserves, since the latter cannot, of course, be drawn upon to any important extent in an emergency.

(ii) The absolute amount of the required reserves should be determined, rather, by the amount of resources of which the Reserve Banks have need for purposes of efficient control. This is the same conclusion as that reached by the Macmillan Committee.

(iii) The effect of the legal requirements on the volume of credit should be in the direction of putting a brake on when there is great activity and of giving some relaxation in times of depression.

(iv) The legal requirements should be fair in their application as between individual banks.

The Committee find that the existing system is not in satisfactory accordance with these principles. Moreover, the intention of the present requirements, which date in the main from 1917, has been to a considerable extent evaded; and as to this

[1] Report of the Committee on Bank Reserves of the Federal Reserve System. Government Printing Office, Washington, 1931.

they give some interesting particulars which have not been previously available. Under the original Federal Reserve Act, the till-money of the banks reckoned towards their reserve requirements up to a certain proportion. During the war this was modified with the object of centralising gold and gold certificates in the Reserve Banks; and as an offset to this, the percentage reserve to be held against demand deposits was reduced by 5 per cent. and the reserve against time deposits by 2 per cent. The result of this change during the intervening years has been to bring about an extraordinary diminution in the amount of till-money held by the Member Banks; the average for all banks having fallen from 4½ per cent. of their deposit liabilities to less than 1½ per cent. Doubtless this is partly due to the increasing use of cheques for wage payments, but the Committee think that this accounts for only a part of the decline.

They also consider that the low percentage of reserves required against time deposits, namely, 3 per cent., has lent itself to abuse, and that a certain amount of money which is serving the purpose of a demand deposit is masquerading as a time deposit. In justification of this view, they mention that between 1925 and 1929 the rate of turnover of the average dollar deposited, whether as a demand or time deposit, in Member Banks increased from twenty-four times a year to thirty-three times a year, in spite of the fact that 64 cents of this dollar was classified as a demand deposit in 1925, as against 59 cents in 1929. But if they had made the comparison with 1931 instead of with 1929, its force, might. I think, have largely disappeared.

The net result of the reduction in till-money and of the increased proportion of the total deposits held as time deposits has been that the reserve requirements of Member Banks in 1931 were about 34 per cent. less in proportion to their deposits than they were before the Federal Reserve Act was passed. The effect of the change since 1917 seems to have been to reduce the present reserve requirements by something like $1,500,000,000 as compared with what they would have been otherwise. Nevertheless, the Committee do not feel that the present aggregate has fallen to a lower figure than the Reserve Banks need for their own efficient working. Their proposals would not, indeed, involve any immediate increase in the aggregate reserve requirements, and would merely put a stop to a further nibbling away at the legal reserves which might prove embarrassing to the Reserve Banks. This is diplomatically emphasised by the Committee. But I surmise that their proposals would involve some

increase, if the requirements of brisk times were to be averaged with those of depression. Herein would lie, I suspect, the chief danger in introducing the new plan to-day. For whilst it is so devised as not to increase the reserve requirements at the present moment, it is calculated, in all probability, to increase them above what they would otherwise have been, immediately that trade begins to revive. Thus it would need open-market operations on a larger scale than would be needed if no change is made, to prevent the new plan from acting as a damper on any revival.

The Committee's main point is concerned with the failure of the present system to put on the brake in active times or to relax the pressure during a depression. They show that the increased turnover in active times is mostly provided for by a change in the velocity of circulation and only to a small extent by an increased quantity of deposits. For example, during the three-and-a-half years from the middle of 1927 to the end of 1930 the net deposits and the Member Bank Reserve balances both fluctuated round an almost steady figure, whereas the volume of turnover rose by some 50 per cent. and then fell back again to below its initial figure. In fact the legal reserve requirements were about $75,000,000 lower in September 1929 at the peak of the stock-market boom than they had been in December 1927. Moreover, there is a minor provision in the present law, to which little importance might have been attached, which tends to operate exactly in the wrong direction. When a Country Member Bank lends its funds to a centrally situated Member Bank, the deposit becomes subject to the higher rate of reserve appropriate to the latter. If, however, the Country Bank lends its reserves direct in the market, then the lower reserve requirements appropriate to Country Banks is effective. Now the former is what tends to happen in slack times and the latter in active times. For example, in 1924 an inactive demand for funds from trade and industry led to a large deposit of Country Bank funds with City Banks, and was consequently reflected in a sharp *increase* in legal reserve requirements.

Finally, the Committee's inquiries have led them to the conclusion that the existing system is not as fair as it might be as between individual banks. The possibility of economising in till-money favours those banks which are located in close geographical proximity to the Reserve Banks. Furthermore, the present provision by which balances due *from* other Member Banks can only be deducted for the purpose of calculating net deposits from balances due *to* other Banks, operates unfairly to

Country Banks. And in general the activity of the deposits of the different classes of Banks corresponds only very roughly indeed to their geographical location.

The upshot is that the Committee have decided unanimously in favour of a very drastic change. They propose to abolish entirely the existing distinction between Central Reserve City Banks, Reserve City Banks and Country Banks. They also propose to abolish the distinction, for the purpose of reserve requirements, between time deposits and demand deposits; since they are convinced that experience shows that there is no practical way of defining the distinction between these two classes of deposits without opening the door to evasions. The substance of their alternative proposals can be summarised as follows:

(i) A reserve of 5 per cent. to be maintained against all deposits (net) without distinction. 24303.

(ii) An additional reserve to be maintained equal to 50 per cent. of the average daily withdrawals actually made from all of the deposit accounts on the books of the bank. The basis for the calculation of the reserve under this heading would be the average of the preceding eight weeks, averaged over a subsequent period of one week or four weeks according to the location of the bank.

(iii) United States Government deposits to rank for reserve requirements in the same way as other deposits; the exemption in their favour which was introduced to facilitate war finance being abolished.

(iv) In the calculation of net deposits, balances due from other banks in the United States and cheques in process of collection to be subtracted.

(v) The rule of allowing till-money (or "vault cash," as it is called in the United States) to reckon within certain limits (not exceeding one-fifth or three-fifths of the total reserves according to the bank's location) to be restored.

These rules mean that a totally inactive deposit would carry a reserve of 5 per cent. and one which is checked out on the average once a week a reserve of 12 per cent. It is provided that in no case shall the aggregate reserve required of a bank exceed 15 per cent. of its gross deposits, but inquiry shows that this limitation would very seldom be operative. For the average Member Bank the total reserve requirements would work out to-day at about 8 per cent. of total deposits, which means that the average deposit (including time-deposits) was turned over twenty-two times a year in 1931 as compared with thirty-three

times in 1929. The Committee have calculated the above figures in such a way that if the new system were to be introduced to-day, it would effect a negligible change in the average reserve requirements. A period of slump is, therefore, a good opportunity for making the change, since in brisk times it would mean a sharp increase in reserve requirements and would therefore be more likely to provoke opposition.

This proposal for calculating reserve requirements by reference to the turnover of deposits is a somewhat startling innovation; but it seems to me to be ingenious, practicable and of a right tendency in its effect on the fluctuations in the reserve requirements. If this system is introduced it will be important to bear in mind that *no* rule-of-thumb system will be an adequate substitute for open-market operations or other ways of deliberately regulating the volume of aggregate deposits. For it is easy to imagine circumstances in which the rule-of-thumb thus brought into the system would be of a wrong tendency. Moreover, if the new system is initiated near the bottom of an unprecedentedly severe slump, it will be important (and perhaps not easy) to prevent it from exercising a check prematurely. But generally speaking it would, I think, facilitate the task of the reserve system and would tend to diminish the scale of the open-market operations which are necessary for purposes of control. The Committee's calculations show that in 1929 the reserve requirements would have been greatly increased above the figure which ruled under the existing system; which would certainly have strengthened the hands of the reserve system at that time. Equally at the present time any further decline in activity would reduce the reserve requirements and there would be an automatic stimulus, without the necessity of large open-market purchases by the Reserve Banks.

The Report is a model document of its kind, brief and clear and to the point, though it would have been improved by the addition of an appendix with statistical tables.

J. M. KEYNES

THE INDIAN CENTRAL BANKING INQUIRY COMMITTEE, 1931

DURING the past few years several Royal Commissions and Committees of Inquiry have been at work upon various phases of economic conditions in India; among them should be mentioned—The Royal Commission on Agriculture, The Taxation Inquiry Committee, The Economic Inquiry Committee, The Royal Commission on Currency and Exchange, The Statutory Commission, and The Central Banking Inquiry Committee, 1931. Their reports form a veritable encyclopædia of information concerning practically all phases of economic life in India to-day, and are a mine of valuable material to which the research worker, the publicist and the economist can go for years to come. The Indian Central Banking Inquiry Committee, 1931, is the last one to report, and in its thoroughness, in the mass of material assembled, and the importance of the field covered as well as in its considered recommendations, the report ranks high as a serious piece of work. The personnel of the Committee was well and carefully chosen under the Chairmanship of Sir Bhupendra Nath Mitra, and contained many well-known business and public men, such as—Sir Purshotamdas Thakurdas, Sir Hugh Cocke, Dr. L. K. Hyder, V. Ramadas Pantulu, G. K. Devadhar and R. K. Shanmukham Chetty. Of the twenty-one members of the Committee no less than seventeen were Indians. The Government of India appointed a sub-committee of foreign experts to co-operate with the Indian Committee; the international character and varied interests of these experts may be judged from these facts: G. C. Cassels is the Manager of the Bank of Montreal, London; B. Currie is a partner in Glyn, Mills and Company; Dr. A. Friederich is the General Secretary of the Union Co-operative Society, Darmstadt; Dr. O. Jeidels represents several large German interests; A. P. McDougall represents a number of large English and Scottish concerns; and Dr. L. J. A. Trip was formerly associated with the Department of Finance at The Hague, and is a former President of the Bank of Java.

The report proper is a large Blue Book of 915 pages; there are three separate minutes or notes of dissent, and a Minority Report by one member (Mr. Manu Subedar) of considerable size contained

in a separate Blue Book of 484 pages. In a committee representing various races and different conflicting interests one may expect that differing points of view should desire expression in separate minutes or even notes of dissent, but that one member should take upon himself the responsibility of writing a separate Blue Book minority report is altogether beside the mark. We do not want the individual views of one member; the whole purpose of a committee is to get away from the domination of one person; it is collective consideration of a subject and joint recommendation that is wanted; consequently it is in the nature of presumption for one member of an important committee to go off by himself and write a Minority Report.

For a number of years past suggestions have been made from time to time referring to the desirability of an inquiry into banking in India; in 1924 the External Capital Committee made this remark : "India possesses vast stores of dormant capital awaiting development, and in order to make these available for investment, facilities should be increased and extended. We would emphasise the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India." In 1929 the Government of India gave its sanction to a comprehensive survey of banking throughout India; the inquiry was to proceed along three lines :--(1) A number of Provincial Committees were appointed, consisting of persons having intimate knowledge of local conditions, which were to study the following subjects: agricultural credit (including co-operative credit), credit facilities for small industries, land mortgage banks, financing of internal trade, and the stimulation of habits of investment and attraction of banking deposits. (2) Then an all-India Central Committee was to continue the work by making investigation into certain fields of banking which had not been covered, such as the regulation of banking, banking education and credit facilities for India's chief industries, as cotton, jute and coal. Then (3) a small body of foreign banking experts having experience of rural credit and industrial banking was appointed by the Government of India to co-operate with the Central Committee in coming to their conclusions and making their recommendations.

The terms of reference were as follows :—

"To investigate past records and existing conditions of banking in India, including the organisation of the Money Market, and to consider the steps, if any, that are feasible and desirable under the following main headings :

(a) The Development of Banking with a view to the expansion of indigenous, co-operative and joint-stock banking with special reference to the needs of agriculture, commerce and industry;

(b) The Regulation of Banking with a view to protecting the interests of the public; and

(c) Banking Education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of banking."

I. DEVELOPMENT OF BANKING

There are five types of banks operating in India: the Imperial Bank of India, Joint-stock banks, Exchange banks, Co-operative banks, and the Indigenous banking system. To these should be added other existing credit agencies, such as Land Mortgage banks, Loan offices, Nidhis and Chit Funds, the Government Departments, and Insurance companies. The strong and insistent criticism on banking in India is that it is too much dominated by foreign capital, policy and management, and that purely Indian and indigenous banking is not sufficiently encouraged. Most of the banking business of the country is done by the Imperial Bank and the Exchange banks, which are foreign; what is needed is a greater development of Indian Joint-stock banks, Co-operative banks, Indigenous banking, and Land Mortgage banks.

Indian banking has had its periods of ebb and flow. When the principle of limited liability was allowed in 1860, and after the close of the American War, there was a great wave of banking activity; another such period was experienced between the years 1906 and 1913. But during the Great War and after, from 1913 to 1924, as many as 161 banks in India failed, involving the large amount of about Rs. $6\frac{3}{4}$ crores. As an important aid to the development of banking in India, the Central Committee recommend the adoption of a more liberal policy by the Imperial Bank of India and other joint-stock banks in granting facilities to the large number of indigenous bankers whose principal business is not banking, or who do not take to banking as their chief interest as soon as a Reserve Bank is established. Another recommendation is that the cost of internal remittance in India should be reduced as far as possible, and from a purely banking point of view the removal of all impediments to the free transfer of lands is desirable. The suggestion that banks in India should aim at combining the

efficiency of the European system of banking with the economy of indigenous bankers is commended for the consideration of the management of banks.

At the back of all efforts to improve banking facilities are the dead-weight conditions of poverty, ignorance and helplessness of the masses. Economic progress and the development of banking are interdependent; the growth of banking depends on the spread of education, the promotion of agricultural improvement and the encouragement of industrial organisation, for no improvement in the existing credit system and banking facilities is likely to be effective unless it is accompanied by measures for raising the standard of living and economic condition of the mass of the *population and for building up its productive strength.* The statistics given by the Committee on income and indebtedness are astounding: the total gross value of the annual agricultural produce works out to about Rs. 1,200 crores on the basis of the 1928 price levels; the average income, therefore, of an agriculturist in British India is about Rs. 42, or a little over three pounds sterling a year. Thus will be seen the appalling poverty of the agricultural classes. Rural indebtedness is estimated to be about Rs. 900 crores, which works out to something like Rs. 30 per head; the small income and the burden of indebtedness are the two factors which are strangling the economic life of the country. The extortionate rates of interest are another oppressive burden upon the people: in Assam, interest rates vary from 12 to 75 per cent.; in Bombay, from 12 to 25 per cent., or even more according to varying conditions; in Madras the common rate of interest is from 12 to 24 per cent., occasionally rising to 36 or even 48 per cent.; in Bengal the minimum rate varies in different districts from 10 to 37½ per cent., and the maximum from 37½ to 300 per cent.; the Pathan money-lender's rates vary from 75 to 360 per cent. A hopeful movement for bettering the economic condition of the agriculturist was reported by Mr. Devadhar concerning the working of the Act which was passed in 1928 for the consolidation of holdings in the Chhatisgarh Division of the Central Provinces. According to his figures, during the short period of a little over three years since the Act came into force, 502 villages have come forward to secure the benefit of the Act; 174 villages out of the 502 have already been dealt with; in all 156,500 acres of land parcelled out into thousands of small, uneconomic holdings have been consolidated, and are now able to support an average family with some chance of a decent living. Mr. Devadhar also suggests that in the task of rural uplift the

work of consolidation of uneconomic holdings or the prevention of further fragmentation of land must be vigorously undertaken.

Poverty, indebtedness, extortionate rates of interest, and the smallness of landholdings are among the chief causes of India's economic backwardness; the Commission have much to say about methods of removing these conditions. A scheme of debt conciliation on a voluntary basis is strongly recommended, to be pursued by propaganda to have the lender and the borrower agree to a redemption of standing debt on the basis of a cash payment or equated payments spread over a number of years. In a case where the lender will not agree to a voluntary settlement of the debt, action should be taken by legislative enactment to force a compulsory settlement. The Commission see great opportunity for relief in the matter of cheaper credit in the co-operative credit movement. The primary societies should serve as savings banks for their members and promote thrift; the ordinary co-operative credit societies should confine themselves to dispensing short-term and intermediate credit, while long-term credit should be provided by the land mortgage banks. In order to popularise the co-operative movement and to promote a sense of responsibility among the members of the society, the official control that now exists in certain provinces should be slackened. Great possibilities are seen in land mortgage banks: the development of well-organised joint-stock land mortgage banks for the benefit of the numerous classes of landowners who cannot be adequately served by the co-operative credit organisations is recommended.

The Royal Commission on Agriculture in India and the various Provincial Banking Inquiry Committees have stressed the necessity of organising means for marketing agricultural produce; one means to this end is the question of providing warehouses and licensing them, so that the ryots can store their produce and wait for a rise in prices, instead of having to sell from the threshing-floor when the price is at its lowest level. Not only is there need for cheaper agricultural credit, but better credit facilities for rural industries are greatly needed. The establishment of co-operative institutions to finance rural industries on a larger scale than at present, and the study of German experience in the field of co-operative organisation for small industries and small traders and retailers are recommended. To provide long-term capital for larger industries it is suggested that Provincial Industrial Corporations should be established with numerous branches.

A subject of great interest for several years past has been a

Reserve Bank for India; a Bill was introduced by Sir Basil Blackett, but it had to be withdrawn because of the difference of opinion over the matter of control and the question of political interference. The report under consideration says: "The foreign banking experts went so far as to say that it is one of our principal duties to recommend that the Reserve Bank should be established in India as soon as possible, and that this institution should be free from political influence. . . . We accordingly consider it to be a matter of supreme importance from the point of view of the development of banking facilities in India, and of her economic advancement generally, that a Central or Reserve Bank should be created AT THE EARLIEST POSSIBLE DATE. The establishment of such a bank would by mobilisation of the banking and currency reserves of India in one hand tend to increase the volume of credit available for trade, industry and agriculture and to mitigate the evils of fluctuating and high charges for the use of such credit caused by seasonal stringency."

The financing of India's foreign trade is a subject of considerable moment; most of that business is now done by the foreign Exchange Banks; the Commission recommend on the establishment of the Reserve Bank and the simultaneous withdrawal of the restrictions now imposed on the transactions of foreign exchange business of the Imperial Bank of India, the latter should be induced to take an active share in the financing of India's foreign trade. . . . If, however, the Reserve Bank finds it impossible to arrive at a satisfactory settlement with the Imperial Bank of India or finds that within the stipulated period the Imperial Bank is unable to participate actively in the financing of India's foreign trade, the establishment of an Indian Exchange Bank is urged. The lines on which the new Indian Exchange Bank should be established are also suggested. A new suggestion for the purpose of the further development of the Indian bill market is that the Reserve Bank Bill should permit the purchase, sale and rediscount of rupee import bills. Another valuable suggestion is that an all-India Bankers' Association should be inaugurated as early as possible, and should include as members the joint-stock banks, the exchange banks, the Imperial Bank, and the indigenous bankers. There should be two kinds of membership: full membership open to banks and bankers enjoying rediscount facilities from the Reserve Bank, and associate membership open to the rest of the banks and bankers.

II. Regulation of Banking

Because banks serve as repositories of the cash resources of all classes of individuals and institutions, the banking institutions of a country exercise a powerful influence on the economic life of its people, and should be regulated so as to safeguard the interests of depositors on whose confidence rests the entire banking structure of a nation; it is also necessary for the developing of banking on sound lines. The Commission say that there are two ways in which the existing regulations can be amplified :

(1) By the promulgation of a special Bank Act comprising the necessary provisions governing all banking institutions, and

(2) By the amendment and amplification of the Indian Companies Act so as to provide for the additional matters which require to be dealt with by legislation.

The Commission prefer the first alternative, which will, in our opinion, be more convenient to the public as well as to the banks, and we recommend that a special Bank Act may be passed comprising the existing regulations embodied in the Indian Companies Act with the modifications and additional provisions recommended below. The foreign banks operating in India should be brought within the purview of the Act to the extent indicated in the report and provided for in the Act.

The need for such regulation of banking is seen in the many failures that have been experienced in India; analysing the causes the Commission mention :

Dishonest and incompetent management;
Bad and speculative investments;
Unrestricted loans given to directors or concerns in which they are interested;
The utilisation of short-term deposits for long-term loans;
Insufficient reserves; and
Insufficient liquidity of funds.

The root cause of most of the disasters can be traced to defective management.

The Commission's recommendations for regulating banking in India include :

Organisation,
Management,
Audit and Inspection, and
Liquidation and Amalgamation.

Firms and companies using the term " bank " or its equivalent and desiring to be incorporated under the Act should limit their activities strictly to banking; there should not be allowed loans on the security of a bank's own stock; there should be a definite limitation of loans to directors, managers and members of the staff of the bank. Any bank, Indian or non-Indian, wishing to do banking business in India should be required to take out a licence from the Reserve Bank. Licences should be freely granted to the already established banks. The licensing authority should see that the provisions of the law and any other conditions specified in the licences are complied with. Some of those provisions are :— Every institution doing banking business in British India other than a foreign bank should have a majority of natural-born or domiciled Indian directors. No new bank, other than a foreign bank, should be allowed to operate in British India unless it has a majority of Indian shareholders and is incorporated under the India law. A joint-stock bank with limited liability, registered under the Act, should not commence business until its paid-up capital is at least Rs. 50,000. Its authorised capital should not be more than double the subscribed capital, and the paid-up capital should not be less than 50 per cent. of the subscribed capital before commencement of business. It should be one of the functions of the Reserve Bank to lend its advice and co-operation in cases of amalgamation or reconstruction of banks which are in difficulties. There should be some arrangement under which the Indian creditors of a non-Indian bank taken into liquidation should have a prior claim on its assets in India, and should also share in the general distribution of its assets outside India should there be a shortage in the assets held in India.

III. Banking Education

Any attempt to stimulate interest in commercial education and training before the close of last century was largely negatived by the lack of ambition and desire for such subjects on the part of Indian students. But during the past quarter of a century general interest in the question has been aroused, and now considerable efforts are made and facilities offered to provide opportunity for the systematic study of commercial subjects, including banking. The Commission were deeply interested in this phase of the banking question and recommended that in every University there should be some arrangements for the training of students at recognised institutions for the courses of degrees in commerce instituted by

them. The suggestion that arrangements should be made by the Indian Institute of Bankers for University lectures and courses of instruction at different centres in the subjects included in the curriculum of the Institute is commended for the consideration of the Institute. It is worthy of notice that the Indian Institute of Bankers has recently decided to offer facilities for education in banking. The Institute was established in the year 1928 with the following among other objects :

1. To encourage the study of the theory of banking and for that purpose to institute a scheme of examinations and to give certificates, scholarships and prizes.
2. To promote information on banking and kindred subjects by lectures, discussions, books and correspondence with public bodies and individuals.
3. To collect and circulate statistics, and other information relating to the business of banking in India.
4. To maintain a library consisting of works on banking, commerce, finance, political economy and kindred subjects.
5. To print and publish such newspapers, periodicals, books, or leaflets as the Institute may consider advisable.

The Commission wish that if it could be arranged, young Indians possessing high qualifications should, after they have had a good preliminary training in banks in India, be sent abroad to study advanced banking, especially international exchange and other subjects connected with currency and exchange. Wherever possible, instruction should be given in secondary schools in elementary accounting, discount, co-operative principles and elements of banking, and the subjects should be taught systematically wherever introduced. Sons of the indigenous banking families should be encouraged to join joint-stock banks.

The big problem that we are all facing to-day is the question of marketing. The Commission urge that closer study of agricultural marketing should be introduced in all the co-operative training institutes, and that co-operative educational institutions should be established in each province. The subjects to be studied should include co-operative education, propaganda, progressive farming methods, banking, accountancy, rural economy, marketing methods and rural industry. There should be in addition an All-India Co-operative College for the higher study of co-operation and allied subjects and research work. And further, the officers of co-operative, central and provincial banks should have received full training at, and have passed the examination of, the co-

operative educational institutions, and this should be an essential condition governing the recruitment of the staff of officers.

As to the report in general, the well-known Indian publicist, Mr. P. R. Srinivasan, editor of *The Indian Finance*, has this to say:

"The report of the Central Banking Inquiry Committee is one of the few inquiries to which India will have to turn when she embarks, as she soon must, on a comprehensive programme of economic development. . . . It might look like indulging in a vague figure of speech; but it is none the less sufficiently expressive to say that what we want is the establishment of national banking autonomy; that is, a banking system in which the activities of the various banking institutions and various types of banks will be so co-ordinated and so harmoniously correlated, that the economic life of the nation will be enriched by the fullest contribution of everyone capable of real productive effort. . . .

"The Banking Committee has attempted to preserve a rigidly practical view-point without giving way to mere national sentiment or yielding to the general cant of Indian unfitness for certain lines of business. The recommendations, though they may not satisfy the aspirations of a few, are undoubtedly calculated to pull Indian banking out of the morass into which it has fallen in recent years, and put it on the high-road that leads to what we call Indian banking autonomy."

A. J. SAUNDERS

American College,
University of Madras.

DR. HAYEK ON MONEY AND CAPITAL[1]

To deal with the theory of money, from its doctrinal history down to the inevitable practical proposals, touching upon some of the most perplexing parts of the subject, and all this in four lectures, must have been a feat of endurance on the part of the audience as much as of the lecturer. For, however peculiar, and probably unprecedented, their conclusions may be, there is one respect in which the lectures collected in this volume fully uphold the tradition which modern writers on money are rapidly establishing, that of unintelligibility. The fault must lie in the subject itself, or in the theories which are directed to elucidate it, for this notoriously is the case even with writers otherwise the most lucid. And Dr. Hayek himself in an excellent introductory lecture, in which he traces in the history of thought the sources of his own doctrine, is a model of clearness.

Taken as a whole, there is this to be said in favour of the book—that it is highly provocative. Its one definite contribution is the emphasis it puts on the study of the effects of monetary changes on the relative prices of commodities, rather than on movements of the general price level on which attention has almost exclusively been focussed by the old quantity theory. But in every other respect the inescapable conclusion is that it can only add to the prevailing confusion of thought on the subject.

The starting-point and the object of Dr. Hayek's inquiry is what he calls "neutral money"; that is to say, a kind of money which leaves production and the relative prices of goods, including the rate of interest, "undisturbed," exactly as they would be if there were no money at all.

This method of approach might have something to recommend it, provided it were constantly kept in mind that a state of things in which money is "neutral" is identical with a state in which there is no money at all: as Dr. Hayek once says, if we "eliminate all monetary influences on production . . . we may treat money as non-existent" (p. 109). Thus the parallel inquiry into "neutral money" and various kinds of real money

[1] *Prices and Production.* By Friedrich A. Hayek. London: George Routledge and Sons, 1931. Pp. xv + 112. 6s.

would resolve itself into a comparison between the conditions of a specified non-monetary economy and those of various monetary systems.

We therefore might expect that Dr. Hayek would, in discussing a number of assumed cases in which equilibrium is disturbed, compare the results in a moneyless economy with the corresponding results obtained under various monetary systems, or policies. This would bring out which are the essential characteristics common to every kind of money, as well as their differences, thus supplying the elements for an estimate of the merits of alternative policies.

But the reader soon realises that Dr. Hayek completely forgets to deal with the task which he has set himself, and that he is only concerned with the wholly different problem of proving that only one particular banking policy (that which maintains constant under all circumstances the quantity of money multiplied by its velocity of circulation) succeeds in giving full effect to the "voluntary decisions of individuals," especially in regard to saving, whilst under any other policy these decisions are "distorted" by the "artificial" interference of banks. Being entirely unaware that it may be doubted whether under a system of barter the decisions of individuals would have their full effects, once he has satisfied himself that a policy of constant money would achieve this result, he identifies it with "neutral money"; and finally, feeling entitled to describe that policy as "natural," he takes it for granted that it will be found desirable by every right-thinking person. So that "neutral" money, from being in the first lecture the object of theoretical analysis (p. 28), is shown in the body of the book to be "not merely entirely harmless, but in fact the only means of avoiding misdirections of production" (p. 89), and in the end becomes "our maxim of policy" (p. 106).

If Dr. Hayek had adhered to his original intention, he would have seen at once that the differences between a monetary and a non-monetary economy can only be found in those characteristics which are set forth at the beginning of every text-book on money. That is to say, that money is not only the medium of exchange, but also a store of value, and the standard in terms of which debts, and other legal obligations, habits, opinions, conventions, in short all kinds of relations between men, are more or less rigidly fixed. As a result, when the price of one or more commodities changes, these relations change in terms of such commodities; while if they had been fixed in commodities, in some

specified way, they would have changed differently, or not at all. Upon this basis it would be possible to find the monetary policy the effects of which are the nearest to a given non-monetary system.

It would be idle to rehearse these platitudes had not Dr. Hayek completely ignored them in his arguments. The money which he contemplates is in effect used purely and simply as a medium of exchange. There are no debts, no money-contracts, no wage-agreements, no sticky prices in his suppositions. Thus he is able to neglect altogether the most obvious effects of a general fall, or rise, of prices. This attitude, which amounts to assuming away the very object of the inquiry, appears to originate in a well-founded objection to the vagueness of the conception of "the general price-level" understood as anything different from one out of many possible index-numbers of prices, and in the opinion that such a conception can have no place in a theory of money. Such a theory, according to him, ought simply to consider the influence of money on the relative prices of commodities—which is excellent, provided that money itself is one of the commodities under consideration; but Dr. Hayek goes further and rejects not only the notion of general price-level but every notion of the value of money in any sense whatever (see *e.g.* pp. 7 and 27). Having thus reduced money to utter insignificance, it is easy for Dr. Hayek to prove to his own satisfaction that, if its quantity is kept constant,[1] money is "neutral" in the sense that after a disturbance, such as an increase of saving, the new equilibrium of production and of relative prices is reached as smoothly as if no money existed. And, since he also impartially deprives money of its essence when he considers alternative monetary policies, it is inevitable that money should again be found to be "neutral," and the effects should be identical, that is to say, equally immaterial. But Dr. Hayek invariably finds, when he comes to compare the effects of alternative policies in regulating this emasculated money, that there is an all-important difference in the result, and that it is "neutral" only if it is kept constant in quantity, whilst if the quantity is changed, the most disastrous effects follow.

The reader is forced to conclude that these alleged differences can only arise, either from an error of reasoning, or from the

[1] I follow Dr. Hayek's practice of using "the quantity of money" as short for "the quantity of money multiplied by its velocity of circulation"; although it is a dangerous omission which leads him to overlook that the velocity is bound to change as the direct result of a change in prices.

unwitting introduction, in working out the effects of one of the two systems compared, of some irrelevant non-monetary consideration, which produces the difference, attributed to the properties of the system itself. The task of the critic, therefore, is the somewhat monotonous one of discovering, for each step of Dr. Hayek's parallel analysis, which is the error or irrelevancy which causes the difference. This will be done only for one or two of these cases in the course of the present review. But from the beginning it is clear that a methodical criticism could not leave a brick standing in the logical structure built up by Dr. Hayek.

A considerable part of the book is taken up by preliminaries about the relations between the quantity of capital and the length of the process of production and about the proportions in which the flow of money is divided between the purchase of consumers' goods and the purchase of producers' goods. Dr. Hayek as it were builds up a terrific steam-hammer in order to crack a nut—and then he does not crack it. Since we are primarily concerned in this review with the nut that is not cracked, we need not spend time criticising the hammer. The part which its description plays in the book is little more than that of obscuring the main issue; a maze of contradictions makes the reader so completely dizzy, that when he reaches the discussion of money he may out of despair be prepared to believe anything.[1]

The only point that need be retained is that Dr. Hayek conceives of saving as an increase in the proportion of the total flow of money that is directed to the purchase of producers' goods, as opposed to the proportion that is directed to the purchase of consumers' goods. When we start from the usual point of view, which regards consumers as deciding to save a part of their *net* income, the accumulation of capital proceeds, and no equilibrium can be established, until the consumers revert to the

[1] The essential contradiction is that Dr. Hayek must both assume that the "consumers" are the same individuals as the "entrepreneurs," and that they are distinct. For only if they are identical can the consumers' decisions to save take the form of a decision to alter the "proportions" in which the total gross receipts are divided between the purchase of consumers' goods and the purchase of producers' goods; and only if they are distinct has the contrast between "credits to producers," which are used to buy producers' goods, and "credits to consumers," which are used to buy consumers' goods, any definite meaning. As a result we are alternately told that the "decisions to save" are taken by "the consumers" (p. 46), by "the entrepreneurs" (p. 45), or even by "the industries" (p. 58). This makes a pair with the kindred though distinct contradiction of assuming in the same context that intermediate products never change hands against money (p. 38), and that they change hands against money in equal intervals of time (pp. 41–42).

practice of consuming the whole of their net income. But when we start, with Dr. Hayek, from the *gross* receipts, saving means a decision to change the proportions in which those receipts are spent on producers' and consumers' goods; accumulation then proceeds for a limited period, after which equilibrium is reached, although the new proportions are permanently maintained; though this, it may be noticed, applies only to a very peculiar case, and not, as Dr. Hayek seems to believe, in general; but since, even within the limits of that case, Dr. Hayek's further conclusions appear to be invalid, the point need not detain us any longer.[1]

The central topic of the book is the analysis of the accumulation of capital in a monetary economy. Accumulation, Dr. Hayek says, can take place in two ways: "either as a result of changes in the volume of voluntary saving, or as a result of a change in the quantity of money which alters the funds at the disposal of the entrepreneurs for the purchase of producers' goods."

If savings are "voluntary," consumers place certain sums of money in the hands of the entrepreneurs, who use them for lengthening the process of production, and thus capital accumulates. Skipping over the difficulties of the transition, Dr. Hayek concludes that the accumulation comes to a stop when saving ceases, and a new equilibrium is reached, where the same quantity of labour uses a larger quantity of capital, the output of consumption goods is larger and all prices, he assumes, are lower. The effect thus realised "is one which fulfils the object of saving and investing, and is identical with the effect which would have been produced if the savings were made in kind instead of in money" (p. 49).

His next case is that of "forced saving." If, when no savings are being made, the banks expand the circulation, by means of "credits granted to producers," the initial effects will be the same as those of voluntary saving: the entrepreneurs will use the additional funds placed at their disposal to lengthen the process of production, and capital will be accumulated. An appropriate degree of inflation through loans "to producers" will bring about exactly the same results as voluntary saving;

[1] The extreme instance of integrated firms (pp. 59–60), if nothing else, should have warned Dr. Hayek that his method is not applicable in general, and put him on the track to finding its limits, which are extremely narrow; for in that case he is driven to assume that the money saved is hoarded for a time, thus directly contradicting his postulate that the quantity of money multiplied by its velocity is constant.

and a new situation will be reached, similar to it in all respects, except that all prices will be higher; higher, that is to say, as compared with the similar situation due to voluntary savings, but not necessarily, it should be noticed, as compared with the initial situation; on this latter basis, some prices may be higher and some lower.

It would appear that the parallelism is due to our having ignored the secondary effects of a general fall or rise of prices. But Dr. Hayek has undertaken to avoid the concept of "value of money"; and at the same time he must impress us with the benefits of voluntary saving, and the evils of inflation. He therefore accepts the above conclusions, as far as they go, and must now try to find in a different set of considerations the reasons why inflation has not the same effects as saving.

The true difference between the two cases is, according to him, that the change in the structure of production brought about by saving is permanent, being due to the "voluntary decisions of individuals"; whereas the same change, if due to inflation, is "forced," and therefore the consumers, as soon as inflation ceases and their freedom of action is restored, will proceed to consume all the capital accumulated against their will, and re-establish the initial position.

That the position reached as the result of "voluntary saving" will be one of equilibrium (under Dr. Hayek's tacit assumption that the consequent fall in the rate of interest is irrelevant to the equilibrium) is clear enough; though the conclusion is not strengthened by the curious reason he gives for it.[1]

But equally stable would be that position if brought about by inflation; and Dr. Hayek fails to prove the contrary. In the case of inflation, just as in that of saving, the accumulation of capital takes place through a reduction of consumption. "But now this sacrifice is not voluntary, and is not made by those who will reap the benefit from the new investments. . . . There can be no doubt that, if their money receipts should rise again [and this rise is bound to happen, as Dr. Hayek promises to prove] they would immediately attempt to expand consumption

[1] The reason given is that "since, after the change had been completed, these persons [*i.e.* the savers] would get a greater proportion of the total real income, they would have no reason" to consume the newly acquired capital (p. 52). But it is not necessarily true that these persons will get a greater *proportion* of the total real income, and if the fall in the rate of interest is large enough they will get a smaller proportion; and anyhow it is difficult to see how the *proportion* of total income which falls to them can be relevant to the "decisions of individuals." Dr. Hayek, who extols the imaginary achievements of the "subjective method" in economics, often succeeds in making patent nonsense of it.

to the usual proportion," that is to say, capital will be reduced to its former amount; "such a transition to less capitalistic methods of production necessarily takes the form of an economic crisis" (p. 53).

As a moment's reflection will show, "there can be no doubt" that nothing of the sort will happen. One class has, for a time, robbed another class of a part of their incomes; and has saved the plunder. When the robbery comes to an end, it is clear that the victims cannot possibly consume the capital which is now well out of their reach. If they are wage-earners, who have all the time consumed every penny of their income, they have no wherewithal to expand consumption. And if they are capitalists, who have not shared in the plunder, they may indeed be induced to consume now a part of their capital by the fall in the rate of interest; but not more so than if the rate had been lowered by the "voluntary savings" of other people.

We should expect that Dr. Hayek, having satisfied himself that the "artificial stimulant" of inflation in the shape of producers' credits cannot do any good and cause an accumulation of capital, would conclude that in its opposite form of consumers' credits it is equally incapable of doing harm by preventing voluntary accumulation. But now that he sees his chance he cannot resist the temptation and must let the damned thing run its full course of destruction.

Accordingly, in his next case he finds that if, when the consumers decide to save, additional money is issued through consumers' credits to the extent required for re-establishing the former proportion between the demand for consumers' goods and the demand for producers' goods, "the only effect of such an increase of consumers' money incomes would be to frustrate the effect of saving" (p. 57). And from this it follows that inflation through consumers' credits, when no voluntary savings were being made, *would* be effective in decreasing capital. Thus Dr. Hayek will have it both ways.

If this were not sufficient to show that Dr. Hayek's discussion is utterly irrelevant to money and to inflation, one or two further cases which he has overlooked might be considered. Thus, on his assumptions, if the banks increased the circulation but apportioned the additional money between consumers' and producers' credits so as not to disturb the initial "proportions," nothing would happen. And, on the other hand, if, as their outstanding loans fall due, they changed the "proportions" by increasing the quantity of producers' credits to the same extent as they

decreased the quantity of consumers' credits, the effects would be the same as in the case of the " inflation " effected through producers' credits although the circulation would remain unchanged; and conversely for consumers' credits.

What has happened is simply that, since money has been thoroughly " neutralised " from the start, whether its quantity rises, falls, or is kept steady, makes not the slightest difference; at the same time an extraneous element, in the shape of the supposed power of the banks to settle the way in which money is spent, has crept into the argument and has done all the work. As Voltaire says, you can kill a flock of sheep by incantations, plus a little poison.

Dr. Hayek's theory of the relation of money to the rate of interest is mainly given by way of criticism and development of the theory of Wicksell. He states his own position as far as it agrees with Wicksell's as follows :—" In a money economy, the actual or money rate of interest may differ from the equilibrium or natural rate, because the demand for and the supply of capital do not meet in their natural form but in the form of money, the quantity of which available for capital purposes may be arbitrarily changed by the banks." [1]

An essential confusion, which appears clearly from this statement, is the belief that the divergence of rates is a characteristic of a money economy : and the confusion is implied in the very terminology adopted, which identifies the " actual " with the " money " rate, and the " equilibrium " with the " natural " rate. If money did not exist, and loans were made in terms of all sorts of commodities, there would be a single rate which satisfies the conditions of equilibrium, but there might be at any one moment as many " natural " rates of interest as there are commodities, though they would not be " equilibrium " rates. The " arbitrary " action of the banks is by no means a necessary condition for the divergence; if loans were made in wheat and farmers (or for that matter the weather) " arbitrarily changed " the quantity of wheat produced, the actual rate of interest on loans in terms of wheat would diverge from the rate on other commodities and there would be no single equilibrium rate.

In order to realise this we need not stretch our imagination and think of an organised loan market amongst savages bartering deer for beavers. Loans are currently made in the present world

[1] Pp. 20–21. " Equilibrium rate " is the term Dr. Hayek proposes to substitute for Wicksell's " natural rate."

in terms of every commodity for which there is a forward market. When a cotton spinner borrows a sum of money for three months and uses the proceeds to purchase spot, a quantity of raw cotton which he simultaneously sells three months forward, he is actually "borrowing cotton" for that period. The rate of interest which he pays, per hundred bales of cotton, is the number of bales that can be purchased with the following sum of money: the interest on the money required to buy spot 100 bales, plus the excess (or minus the deficiency) of the spot over the forward prices of the 100 bales.

In equilibrium the spot and forward price coincide, for cotton as for any other commodity; and all the "natural" or commodity rates are equal to one another, and to the money rate. But if, for any reason, the supply and the demand for a commodity are not in equilibrium (*i.e.* its market price exceeds or falls short of its cost of production), its spot and forward prices diverge, and the "natural" rate of interest on that commodity diverges from the "natural" rates on other commodities. Suppose there is a change in the distribution of demand between various commodities; immediately some will rise in price, and others will fall; the market will expect that, after a certain time, the supply of the former will increase, and the supply of the latter fall, and accordingly the forward price, for the date on which equilibrium is expected to be restored, will be below the spot price in the case of the former and above it in the case of the latter; in other words, the rate of interest on the former will be higher than on the latter. It is only one step to pass from this to the case of a non-money economy, and to see that when equilibrium is disturbed, and during the time of the transition, the "natural" rates of interest on loans in terms of the commodities the output of which is increasing must be higher, to various extents, than the "natural" rates on the commodities the output of which is falling; and that there may be as many "natural" rates as there are commodities.[1] It will be noticed that, under free competition, this divergence of rates is as essential to the effecting of the transition as is the divergence of prices from the costs of production; it is, in fact, another aspect of the same thing.

This applies as much to an increase of saving, which Dr. Hayek regards as equivalent to a shift in demand from consumers' to producers' goods, as to changes in the demand for or the supply

[1] And, for each commodity, there will be different rates for loans of different lengths.

of any other commodities. In criticising Wicksell for having prescribed as the criterion of "neutral" money the incompatible aims of a stable price-level and of equality of the money rate with the natural rate, he says that in a society in which there are additions to the supply of savings, "to keep the money rate of interest at the level of the equilibrium rate would mean that in times of expansion of production the price-level would fall. To keep the general price-level steady would mean, in similar circumstances, that the loan rate of interest would have to be lowered below the equilibrium rate. The consequences would be what they always are when the rate of investment exceeds the rate of saving" (p. 24).

But in times of expansion of production, due to additions to savings, there is no such thing as an equilibrium (or unique natural) rate of interest, so that the money rate can neither be equal to, nor lower than it: the "natural" rate of interest on producers' goods, the demand for which has relatively increased, is higher than the "natural" rate on consumers' goods, the demand for which has relatively fallen. This, however, though it meets, I think, Dr. Hayek's criticism, is not in itself a criticism of Wicksell. For there is a "natural" rate of interest which, if adopted as bank-rate, will stabilise a price-level (*i.e.* the price of a composite commodity): it is an average of the "natural" rates of the commodities entering into the price-level, weighted in the same way as they are in the price-level itself. What can be objected to Wicksell is that such a price-level is not unique, and for *any* composite commodity arbitrarily selected there is a corresponding rate that will equalise the purchasing power, in terms of that composite commodity, of the money saved and of the additional money borrowed for investment. Each of these monetary policies will give the same results in regard to saving and borrowing as a particular non-monetary economy—that is to say, an economy in which the selected composite commodity is used as the standard of deferred payments. It appears, therefore, that these non-monetary economies retain the essential feature of money, the singleness of the standard; and we are not much the wiser when we have been shown that a monetary policy is "neutral" in the sense of being equivalent to a non-monetary economy which differs from it almost only by name.

As for the other conceivable and more truly non-monetary economies, in which different transactions are fixed in terms of different standards, there are no monetary policies which can exactly reproduce their results. Which perhaps matters very little,

since the essential consequence of a divergence between the demand and the supply of consumption goods is common to monetary and non-monetary economies. In so far as the consumption goods saved are perishable, they must be consumed by somebody or go entirely to waste; and in so far as they are durable, and can be stored up, they are partly wasted for a time and partly consumed by others than the savers (since their spot price must fall to make storing worth while). With or without money, if investment and saving have not been planned to match, an increase of saving must prove to a large extent "abortive." On the other hand, the conception underlying the inquiry into neutral money appears to be this: when savings take place in a non-monetary economy a stream of finished goods, which might be consumed, is diverted from consumption into investment—the problem is to find a monetary policy which does not interfere with the stream. But the stream is a delusion. When it flows safely into investment, it has never flown out of the savers' hands in the shape of consumers' goods—production must have been so planned ahead as not to produce the unwanted goods; and when the saved goods flow out of the consumers' hands, they do not reach investment unimpaired. Thus, to borrow a distinction due to Mr. Robertson, savings may be the "inducement" but cannot in general be the "source" of investment.

Dr. Hayek's own solution of the problem as opposed to that of Wicksell is contained in the following passage, which should be read keeping in mind that by "supply of capital" he means "voluntary saving," and that "amount of the circulation" is an abbreviation for amount multiplied by the velocity of circulation. "It is perfectly clear that, in order that the supply and demand for real capital should be equalised, the banks must not lend more or less than has been deposited with them as savings. And this means naturally that they must never change the amount of their circulation" (p. 23).

We are kept languishing for the clue to this "perfectly clear" mystery until, at the very end of the book, it flashes upon us in Dr. Hayek's definition of real capital: "'*Real* capital' stands here as the only short (but probably misleading) expression which I can find for that part of the total *money* stream which is available for the purchase of producers' goods" (p. 108, my italics).[1]

[1] The doubt that the definition may apply only to a different context is dispelled by its occurring in a footnote attached to the following text:—"The 'natural' or equilibrium rate of interest which would exclude all demands for capital which exceed the supply of real capital. . . ."

Misleading indeed! The epithets *money* and *real* (applied to wages, costs, incomes, etc.) having always been used as opposites, Dr. Hayek coolly "defines" them as synonyms. And he is the first to be misled, for he uses this argument as a criticism of Wicksell, who by real capital means real capital and not money capital. And he is also misled into believing that he has proved something about "neutral" money, when he is far away from the barter economy in which real capital can be anything but a quantity of money.

His statement might now be translated back into ordinary language as follows :—" In order that the sum of money borrowed for investment should be equal to the sum of money saved, bank loans must increase neither more nor less than the amount that is deposited with them as savings." And finally, to complete the picture, we should add two modifications which Dr. Hayek has introduced in the (later) German version of his book.[1] The first is an exception : the banks must not lend more than has been deposited with them as savings " or at most such amounts in addition which, though saved, have not been invested " (p. 26). The second is a new definition of savings : when some firms are making losses, " only the excess of savings over the amount necessary to balance these losses, or *net savings*, can be regarded as an increase of the demand for means of production ; and when in what follows we speak of savings we mean always and exclusively savings in this sense " (p. 49).

Thus defined and transformed this will not sound unfamiliar to readers of Mr. Keynes' *Treatise on Money ;* in effect, it appears that Dr. Hayek in running away from his problem of neutral money has landed himself right in the middle of Mr. Keynes' theory. And here this review must stop, for space does not allow of an adequate criticism of the new and rather unexpected position taken up by Dr. Hayek.

PIERO SRAFFA

[1] *Preise und Produktion*, Wien, Julius Springer, 1931.

RECENT ITALIAN ECONOMICS

Economia politica contemporanea. Saggi di economia e finanza in onore del Prof. Camillo Supino. (Padua: Cedam. 1930. Two vols. Pp. 440 and 491.)

La crisi dell'imposta personale sul reddito. By E. D'ALBERGO. (Padua: Cedam. 1931. Pp. viii + 165.)

L'imposizione delle imprese di carattere internazionale. By M. PUGLIESE. (Padua: Cedam. 1930. Pp. viii + 140.)

Le tasse nella scienza e nel diritto positivo italiano. By M. PUGLIESE. (Padua: Cedam. 1930. Pp. 122.)

L'Italia agricola odierna. By F. VIRGILII. (Milan: Ulrico Hoepli. 1930. Pp. 386.)

Le vicende del marco tedesco. By C. BRESCIANI-TURRONI. *Annali di Economia,* Vol. VII, Nos. 1 and 2. 1931. (Milan: Università Bocconi. Pp. xxiv + 596.)

I sindacati industriali. FRANCESCO VITO. (Milan: "Vita e Pensiero." 1930. Pp. 331.)

I finanziamenti iniziali d'impresa. Le emissioni di azioni e di obbligazioni. PIETRO ONIDA. (Milan: Industrie Grafiche Italiane Stucchi. 1931. Pp. 435.)

In onore e ricordo di GIUSEPPE PRATO: *Saggi di storia e teoria economica.* (Regio Istituto Superiore di Scienze Economiche e Commerciali, Torino. 1931. Pp. 656.)

IN two bulky volumes containing together more than 900 pages are assembled articles, which have been written by forty-four economists of different countries, in honour of the fiftieth anniversary of Professor Camillo Supino's tenure of the Chair of Economics in the University of Pavia. It is a goodly company of distinguished names, and the papers, which appear in four languages (Italian, German, English and French), cover, as befits the versatility of Professor Supino himself, a wide range of subjects from economic history to controversial questions in modern economic theory. The majority of the contributions are, however, only of minor or ephemeral interest, one outstanding exception being an article of 50 pages by Professor H. Mayer of Vienna, entitled "Die Wert- und Preisbildung der Produktionsmittel," which is an exceedingly closely reasoned study of

the problem of imputed value in relation to factors of production. Attention may also be drawn to the following: "Die Kritik des Bodenrentengesetzes," by L. V. Birck; "I limiti del trasferimento di un tributo," by C. Bresciani-Turroni; and "Die Theorie der Steuerverteilung," by E. von Beckerath. It is unfortunate that the proof-reading of the non-Italian articles, especially of those in German, has been very faulty, a defect which is particularly serious in the case of Professor Mayer's article referred to above, where, in addition to a number of misprints, a large part of one sentence (Vol. II, p. 36) has evidently been omitted.

The first part of PROFESSOR D'ALBERGO's book is devoted to a criticism of the systems of taxation of income now in force in most countries. It is contended, firstly, that taxes on total "net" income are unequal in incidence, inasmuch as it is in practice impossible to stop a great deal of evasion; secondly, that their inquisitorial character renders them obnoxious to the taxpayer; thirdly, that a personal tax on income from all sources is becoming increasingly inappropriate in view of the progressive extension of large productive corporations, which should more suitably be themselves the objects of taxation; fourthly, that the tax on total income strikes, *e.g.* in the case of interest payment, that part of income which forms the necessary supply price of capital, instead of only striking incomes which are in excess of this amount; lastly, that it tends to restrict accumulation and penalise saving. The author proceeds, in the light of recent legislation in Belgium (Law of 1930), to discuss and approve of a method of income taxation which is levied only on income spent, to the exclusion of income saved. The Belgian Law abolishes the direct tax on total income and substitutes a progressive tax on expenditure assessed in accordance with certain objective criteria, which come under five categories—(1) the letting value of dwellings, (2) the letting value of the furniture contained in the said dwellings, (3) domestics and other persons in the personal employ of the taxpayer, (4) horses used for pleasure or sport, (5) motor-cars, boats, steam, motor or sailing ships, aeroplanes. The indices of expenditure in respect of furniture and domestics are reduced in amount in accordance with the size of the family in question. The lower limit of exemption of incomes thus assessed is 20,000, 24,000 or 30,000 francs, according to the size of the commune, while the tax ranges from 1 per cent. where the assessment is below 60,000 francs to a maximum of 15 per cent. where it is 340,000 francs

or over. Further, if the total assessed income of the taxpayer in respect of three other "real" taxes for which he may be liable (the tax on income from land, the tax on income from professions and the tax on income from capital) exceeds 300,000 francs and is greater than the assessment resulting from the indices of expenditure, the tax on income spent is based on the mean of the two assessments. The writer criticises this ingenious system for the excessive simplification of the indices and for the relatively high limit of exemption, but strongly approves of the general principle, for the extension of which (combined with an appropriate system of "real" taxes) he pleads with much fervour. The last part of this volume comprises a short contribution by Professor Dertilis, who describes an income tax of a somewhat similar character, based on indices of expenditure, which has recently been adopted in Greece.

Professor Pugliese discusses in an interesting monograph the problem of the taxation of undertakings which have an international field of action. He is therefore chiefly concerned with the rival methods of taxation in accordance with "origin" and in accordance with "domicile," and so with the attempts to avoid the double taxation to which the simultaneous application of these methods in different countries now gives rise. He comes to the conclusion, largely on juridical grounds, that the principle of "origin" is to be preferred to that of domicile, one practical result, however, of which would be, as has often been pointed out before, to cause almost the whole burden of relieving double taxation to fall on the main creditor countries. His own practical contribution towards a solution of the problem is attractive in principle but exceedingly difficult in application. He proposes that by an international convention to be convened by the League of Nations the different States should agree to draw up a list of undertakings of an international character each of which should be subjected as a unit to a tax levied on the whole undertaking. The tax thus levied would be distributed in accordance with somewhat complicated criteria worked out by the author, among all the countries in which the undertaking, in one form or another, is doing business. There would be a right of appeal to an international fiscal court, and the sums would be paid into a central fiscal office, which it is suggested might be linked up with the Bank for International Settlements, each Government being credited with the amount due to it. Any such proposal, and in general the whole attitude of the writer towards the question at issue, seems to leave out of

account the very wide divergences that exist between the fiscal practice of different countries as to the appropriate level of direct taxation of industrial profits. It seems impossible to conceive of any uniform rate of taxation of a company, which had branches both in England and in France, which would be acceptable at once to the British and to the French Governments. Nevertheless, the book is a useful contribution to a very thorny problem and one that is of growing importance at the present day.

In his second book PROFESSOR PUGLIESE takes up the often disputed question of the exact nature of the fees levied by the State in respect of services rendered by it. He disputes the view that a fee is inherently a price which, like any other price, should be brought into equivalence with the utility to the recipient of the service, and declares that " A fee is a tribute, a compulsory levy paid to the State by the person who benefits in a special manner from the juridico-administrative services the performance of which is inherent in the sovereignty of the State."

PROFESSOR VIRGILII has written a long and detailed account of the development of agriculture in Italy since 1860, with special reference to the period since the War. He describes with the easy mastery of one who is completely familiar with the facts the fluctuating fortunes of the " battle of grain "; the " bonifica integrale "—the ambitious Fascist project for reconstructing rural life in Italy; the reform of the *métayer* system of Tuscany; and then considers in detail the principal agricultural products of Italy—wheat, wine, silk, hemp and tobacco. Professor Virgilii combines a very extensive knowledge of the practice of agriculture in different parts of Italy with the breadth of outlook of the trained thinker. He has written a book which will be indispensable for anyone who wishes to understand the recent agricultural progress of Italy and the agrarian policy of the Fascist Government.

The *Annali di Economia* for the year 1931 consists of a single volume of 600 pages in which Professor Bresciani-Turroni, who has held the Chair of Economics at the University of Cairo, has collected, with additions and emendations, a number of lengthy articles he has published in recent years on the history of the German mark from 1918 to 1924.

The writer was for a time on the staff of the Reparation Commission in Berlin; he was later head of the control over German exports which was set up in 1921 by the Committee of Guarantees, and subsequently economic adviser to the Agent-General of

Reparations. He has thus had unrivalled opportunities, for a non-German, for observation at first hand of the whole dramatic career of the mark from the end of the War down to the completion of the first year of stabilisation, and it is probable that he is better qualified to write on this subject than anyone else living, at least outside Germany. As told in his singularly lucid and clear style, the story is an enthralling if at times a tragic one.

There are hardly any phases of importance in the course of the mark which the writer does not discuss and illuminate. In particular he devotes chapters to the influence of the depreciation and stabilisation of the mark on the balance of trade, the state of the public finances, the volume of production, the foreign trade of Germany, the stock markets, the distribution of wealth and social consequences in general. Throughout these chapters and in a discussion of the relation between the internal and external purchasing power of the mark he throws into strong relief the contrast between the economic phenomena which characterised the earlier period of more gradual depreciation down to the latter part of 1922, and the consequences of the headlong collapse of 1923. One of the most interesting chapters is that in which he accounts for the apparent paradox of the successful stabilisation of the gold value of the mark between November 1923 and July 1924, during which period the circulation of paper marks increased by more than ten times; a new currency—the Rentenmark—was issued *in addition to* the paper marks and to a value of nearly £100,000,000 measured in sterling; and the balance of trade was becoming with each month increasingly adverse.

In allocating responsibility for the collapse of the mark, Professor Bresciani-Turroni regards the enforced payment of reparations as a factor of only minor importance; the major responsibility in his opinion falls on the financial policy of the Reich, the credit policy of the Reichsbank, and the influence and activities of the industrial and commercial classes which for long benefited from the process of depreciation.

The volume is richly supplied with statistical tables and charts which add greatly to its value.

Professor Vito's book is not so much a realistic study of the concentration movement in modern industry as an attempt at a classification of the different types of combines with some discussion of their individual characteristics. A large proportion of the total space is thus devoted to questions of terminology. The writer distinguishes between industrial "groups"—*i.e.* combines of firms, whose chief aim is to secure better organisation and to

lower costs of production—and cartels, whose main purpose is to restrict and control competition, but he admits, and his own treatment shows, how difficult it is in practice to maintain a rigid distinction between the two types of syndicates. He purports to put forward a theory of industrial combines, but the result is not a theoretical work in the sense that it contributes to the study of questions of fundamental theoretical or even practical importance. The treatment of the influence of cartels upon prices, for example, is notably inadequate and does not go beyond a few simple (and incidentally disputable) generalisations, but it is perhaps unfair to criticise Professor Vito for neglecting problems which are outside the scope of what is mainly a study (useful in its own field) in definition.

Professor Onida has accomplished what must have been a laborious and is certainly a useful piece of work. He has made comparative study of the methods by which companies are financed chiefly in their initial stages, in Italy, France, Belgium, Germany, England and the United States. He describes the astonishing variety of shares with their different rights and privileges which are issued in these countries, and shows the various devices used for obtaining control over companies. In Chapter V, which is in many ways the most interesting, he gives a comparative account of the different parts played by the banks, the stock exchanges, and company promoters in the above-mentioned countries in the issue and placing of new shares. In Chapter VII in which he treats of the valuation of capital, he deals somewhat drastically with the conception of good-will, to which he denies any logical *raison d'être* or mode of computation independently of the valuation of the undertaking as a going concern. He holds that for most purposes the only legitimate method of valuation is based on the capitalisation of earning capacity and it is impossible to separate off good-will quantitatively from the other factors which determine earning capacity. For the English reader the chief value of the book lies in the light that it throws on company finance in Continental countries, but though it is evidently written with a wide knowledge of the facts, the treatment is rather abstract and theoretical, and it would have gained much from a more generous use of practical illustrations. As it stands, it is a somewhat arid academic treatise on a subject of great practical interest and importance.

The essays published in the memorial volume in honour of the late Professor Prato of the University of Turin are divided into three groups—studies in economic history; studies in economic

theory and the history of economic doctrine; and studies in economic policy and sociology.

It is not possible here to do more than mention a few of the essays which seemed to the reviewer to be of special interest. In the historical group there is a short note by PROFESSOR H. HAUSER, *De quelques points de la bibliographie et de la chronologie de Jean Bodin*, which throws light on a French writer of the sixteenth century who was one of the earliest contemporary writers to recognise the causal connection between the rise of prices in Europe and the flow of precious metals introduced by Spain. DR. C. BARBAGALLO in a long contribution, *La questione sociale nella prima metà del secolo XIX*, discusses the social and economic consequences of the industrial changes in the first half of the nineteenth century with reference to other European countries as well as to England. In the second group DR. CHESSA, *Vecchio e nuovo corporativismo economico*, brings out the differences between the corporative State of Fascist Italy and the mediæval guild system, the projected form of *Planwirtschaft* conceived by Rathenau, and the proposals of the English Guild Socialists. In a vigorous and incisive article, *Bemerkungen über die Problematik der amerikanischen Institutionalisten*, DR. O. MORGENSTERN of the University of Vienna criticises the pretensions of the American Institutionalists to have formulated a new and distinctive type of economics, purged of the errors of the deductive school. In the third group of essays PROFESSOR R. WESTERFIELD, in *The Current American Controversy concerning Central Bank Policy*, makes an interesting contribution to the history of the Federal Reserve policy during the years leading up to the New York Stock Exchange boom. Finally, PROFESSOR A. NICEFORO, *Misura e valore della civiltà*, brings a witty and sceptical mind to bear on the problems confronting any attempt to compare or estimate the value of the civilisations of different countries at the same time or of the same country at different times.

C. W. GUILLEBAUD

REVIEWS

Essai sur la nature du commerce en général. By RICHARD CANTILLON. Edited, with an English translation and other material, by HENRY HIGGS. (London: Macmillan & Co., Ltd., for the Royal Economic Society. 1931. Pp. viii + 394.)

WHEN a book of great importance has once fallen into undeserved oblivion for a long period, it seems to be very difficult to revive lasting interest in it, even though its rediscovery may, at first, have been greeted with considerable enthusiasm. If, in the case of Cantillon, the recognition of the importance of Jevons' discovery was not so general and lasting as might have been expected, this was probably due to the fact that Jevons, in the brilliant article (now reprinted) in which he proclaimed his discovery and called the *Essai* "the cradle of Political Economy," coupled the question of the importance of Cantillon with the problem of the "nationality of Political Economy." This immediately aroused the antagonism of all the admirers of the Physiocrats, both inside and outside France; and since the Physiocrats, with their strong philosophical leanings, appeal more than does Cantillon to those who are not specialists in Economic Theory (and historians of economics usually are not), Cantillon has never achieved their popularity. Even in England he is certainly not as well known as he deserves to be—at least, not outside the sphere of influence of a few ardent admirers, of whom the Editor of the present edition is one.

The need for a new edition of the *Essai* has long been felt, for the three contemporary editions are now very rare, and even the reprint published by Harvard University ten years after Jevons' discovery has long been out of print and difficult to obtain. We have every reason to be grateful to the Editor and to the Royal Economic Society for the excellence of the present edition. It would, indeed, have been impossible to find anyone better qualified for the task of editing the *Essai* than Mr. Henry Higgs; for it was he who followed up certain clues about Cantillon which Jevons had been prevented from investigating owing to his death—which occurred only a year after his article was published. Practically all additions to the store of information discovered by Jevons are due to Mr. Higgs' painstaking and scholarly research.

The complete mystery which enshrouded the person of Cantillon and the manuscript of the *Essai*, and which could not be penetrated even at the time when the *Essai* was published twenty-one years after his death, has at last been sufficiently dissipated to reveal one of the most fascinating stories in the literature of Economics. However, while sympathising with Mr. Higgs' point of view, I feel that he might have made the biographical part even more interesting if, instead of religiously preserving Jevons' article and supplementing it by a statement of what he himself has since discovered, he had given us a connected account of all that is known about Cantillon.

It is characteristic of the curious history of the *Essai* that neither of the two versions—the French and the English—which are printed in this volume, can truly be called the original. The French text, which is often regarded as the original, is probably a translation, made by the author himself, of the lost English original. But, while part of the English text is a retranslation by Mr. Higgs of the French edition published in 1755, Mr. Higgs has been able to incorporate a very considerable part of what is, probably, the true original. For the preservation of these parts we are indebted to the industrious M. Postlethwayt, who seems to have been in possession of the original for several years prior to the publication of the French edition, and who printed long extracts from it in his *Universal Dictionary of Trade and Commerce* (1751–55). It is, in some measure, to be regretted that Mr. Higgs did not indicate in somewhat greater detail which passages are taken from this contemporary text (and which may, therefore, be regarded as the original) and which parts constitute the new translation. It even appears that, in some places, Mr. Higgs has adapted the Postlethwayt text by eliminating what are probably editorial changes, so as to make it correspond more closely to the French text. While, on the one hand, the effect of this revision has been to produce an English version which is as close to the original as it is possible to make it, and the continuity of which is not interrupted by numerous footnotes, yet it still remains necessary, for purposes of serious research, to use the two original bulky volumes of Postlethwayt.

However, this slight blemish is insignificant compared with the great importance of at last having available for the general student of Economics a really good and convenient edition of this gem of economic literature. It is to be hoped that Cantillon will now assume the position in the history of Economics which he rightly deserves. But, unlike so many of the early writers on

this subject, Cantillon's claim on our attention is not primarily due to his position in the history of Economics. In fact, the *Essai* is one of the six or eight works on our science, written in the period prior to modern developments (*i.e.* before about 1870), with which every economist should be familiar. Its truly scientific method of approach and the detached spirit of its analysis can still teach a great deal even to the modern student. If the only fact which emerged from a study of this *Essai* was that a keen scientific mind, two hundred years ago, was led, by the study of the economic life of his time, to use essentially the same concepts and, in many cases, to draw the same conclusions as we do, then we should have an effective demonstration of the fact that the truth of the fundamental ideas of Economic Science is not dependent upon the circumstances of the particular historical situation with which we are familiar; such a demonstration would be not a little valuable.

The attraction of this book for the theorist rests, however, almost entirely on its inherent merits and not on the rôle which it played in the history of Economics. Adam Smith and Condillac, indeed, are known to have been influenced by Cantillon, but after the year of the publication of their great works, his name is scarcely mentioned for a century. To what extent later writers have been influenced by him—directly or indirectly—and what the effect on the history of our science would have been had he been better known, are matters for interesting, but idle, speculation. Malthus is the only later author of the Classical period who is likely to have been influenced by Cantillon. Roscher seems to have been the first to rediscover his importance. Practically all the occasional references which occur before the publication of Jevons' article can probably be traced to Roscher's influence. Since that time he has been frequently quoted, but has probably not been so widely read as those references might lead one to suppose. If the present edition induces more economists to do so, then I have no doubt that they will feel that it has been well worth their while.

I must not fail to mention that this volume is not only well produced as regards typography and binding, but also that it is adorned with portraits of Cantillon's wife and daughter. Since we do not know what Cantillon himself was like, and since the daughter looks so much more intelligent than her mother, these pictures form a rather unusual but interesting substitute for the portrait of the author himself.

F. A. Hayek

Tariffs: the Case Examined. By SIR WILLIAM BEVERIDGE and others. (Longmans. 1931. Pp. 300. *7s. 6d.*)

IT is difficult for anyone who finds this book convincing to review it adequately. For the authors arrive so triumphantly along so many roads at the same conclusion that the reader is left feeling that there can be no more to be said.

The book is written for the layman, and, apart from one difficult chapter on Tariffs as Instruments of International Equilibrium, the intelligent layman will have no excuse for not understanding it. The first ten chapters, written by Sir William Beveridge, present the general case for free trade, explaining how exports pay for imports, distinguishing between protective and non-protective duties, and dealing with the effects of a tariff on unemployment, on the standard of living, on the economies of mass production, and (as a bargaining instrument) on the tariffs of other people. They are distinguished by the author's habitual humanity of style. Thus we learn that if a protective tariff is to establish in this country the production of even the £200 million worth of genuinely manufactured articles now imported, this means not only "the turning of wood pulp into newsprint, but growing the trees and pulping them; not only dressing furs brought in, but finding the fur-bearing animals to shoot in Britain." Again, in discussing the question whether the pure milk of free trade doctrine is good for a single exception in a protectionist world, the author invites us to consider a tariff as merely one obstacle to international trade comparable with such other obstacles as lack of natural harbours. We are reminded that if one country has good harbours and others have not, that country will indeed not be so well off as if all enjoyed this advantage; but it will still be better off than if it "sank rocks all round its coasts."

The later chapters deal with the more specialised aspects of the controversy, or those which loom particularly large in contemporary politics. An anti-dumping tariff is disposed of on the grounds that (1) the answer to the question, When is dumping not dumping? is, nearly always: (2) where genuine dumping does occur a tariff is the worst possible method of dealing with it: and (3), contrary to popular belief, it is no easier to dump into an unprotected than into a protected market. Next, the chairman and Mr. Hicks clear imperial preference schemes out of the way, chiefly on the ground that they would turn all trade topsy-turvy, and that anyhow none of the Dominions really wants

them. Then Professor Robbins makes short work of agricultural protection, finding that food taxation is a gross distributive injustice, that in any case no amount of protection will bring us more than an inch or two nearer the goal of self-sufficiency in food production and that the social amenities of agriculture consist largely of the sentimentalising of townsfolk about the country-side on which they do not live. The possibilities of a revenue tariff are treated by Professor Robbins and Mr. Schwartz and found to be distributively bad and financially disappointing. Professor Plant and Mr. Benham examine the actual procedure by which tariffs are in fact made, and conclude that no tariff will long be scientific in anything but theory. Finally, Mr. Hicks shows (perhaps a little too conclusively) that import boards are no better than tariffs, being but a cumbrous and complicated way of doing a simple job badly.

The only comment to be made is that such overwhelming certainty may appear too good to be true. Since a number of informed and intelligent people believe that some kind of a tariff would be useful to this country to-day, must there not be more sense in the opposition arguments than the authors of this book will allow? At one or two points (but these need to be sought with a microscope) even those who accept the conclusions reached may suggest that the argument is not wholly convincing.

Thus, on p. 59 the effects of protection on employment and the kernel of the free trade theory are stated in a parable of the miner and the tailor. The miner is supposed to be selling coal for export and the tailor to be unemployed because of the competition of imported clothing. A tariff is imposed on these imports and, according to the free trade doctrine, the tailor gets a market and the miner loses one. Everything turns on which is the more likely to find a market for himself—the tailor or the miner? Sir William Beveridge argues that there is little evidence either way, and that the case for the tariff, which puts the burden on the miner, is at least not made out. But is this the whole story? The miner may be, and very likely is, already losing his market because of economic forces which are, and will inevitably continue, too strong for him. He no longer enjoys the comparative advantage which made his an export industry. Might not, then, a wise tariff, by encouraging the diversion of labour and capital from mining to tailoring, assist and expedite a change which is economically desirable, but in practice delayed by the usual friction?

Again, the whole case rests, of course, on the assumption that

exports pay for imports. This fundamental proposition (which, incidentally, the layman finds it extraordinarily difficult to grasp in concrete terms) may easily be stated so as to prove too much. In Chapter II (especially on p. 24) and again in Chapter VII the reader has only to take one step further in the argument which this proposition sustains in order to arrive at the startling conclusion that imports *cause* exports, and that if we would only all spend as much as we possibly can on the purchase of foreign goods, all our troubles would disappear.

Finally, it may be questioned whether the authors' preference for anything rather than a tariff is not exaggerated. In the few cases where they are prepared to consider interference with the free course of international trade (*e.g.* genuine dumping or the protection of industries of exceptional military or social importance) they favour absolute prohibition rather than taxation of imports; and if there is to be a tariff at all, they would have the smallest possible number of duties rather than even a very low general tariff. These views, however, are not fully argued—an omission of little importance in itself, but most lamentable if it should (as it might) lead the reader to believe that the authors of this most admirable volume are guided by implacable hostility to the very name of tariff, as well as by the logic which shines so lucidly from their pages.

BARBARA WOOTTON

The Structure of Competitive Industry. By E. A. G. ROBINSON. (Nisbet and Cambridge University Press. Pp. 179. 5s.)

IN his introduction to this new Cambridge Economic Handbook, Mr. Keynes tells us that "this series is not directed towards making original contributions to economic science . . . and is intended to convey to the ordinary reader and to the uninitiated student some conception of the general principles of thought which economists now apply to economic problems." Happily, this is not quite true of Mr. E. A. G. Robinson's work. It is a most original contribution, and a somewhat flattering picture of the thought now applied to the subject of industrial structure would be given to readers and students if this book were supposed to be conveying it. Yet individual as it is, Mr. Robinson's thought is expressed in so lively a style and with so obvious a fund of industrial experience to back it, that the uninitiated may join with the sophisticated initiate in appreciating a choice new dish added to the Cambridge menu.

As a *pièce de résistance* this work has the great advantage of

being built up along one main idea, which permits the subsidiary arguments to be easily related to the whole scheme. The idea is that of various optimum sizes of firm—*i.e.* sizes of minimum cost per unit of output—determined by the various considerations of technique (Chapter II), management (Chapter III), finance (Chapter IV), marketing and risk of fluctuations (Chapters V and VI). These various theoretical optima have then (Chapter VII) to be reconciled in the size or constitution of a real firm after allowing (Chapter VIII) for difficulties and anomalies of growth. This method of tackling industrial structure may well become the classical convention, and Mr. Robinson should then gain equal glory with whoever first divided economics into books on Value and Distribution respectively. But if this is Mr. Robinson's destiny, it is important to subject his analysis to searching criticism before it becomes canonised. In particular, care should be taken that the terms used are definite and unambiguous and that they will not be misinterpreted by the many followers the analysis deserves.

Unfortunately, Mr. Robinson is not strong on definitions. He is naturally keen to cut the cackle and get to the 'osses, but a little more preliminary cackle might perhaps have kept the 'osses more securely out of certain bogs. Some of the words most fundamental to the analysis let the traveller down rather badly. The time-worn confusion between firm and plant is not always avoided, especially in the two final chapters on location, where it is the location of plants, not firms, that is presumably under discussion. Nor is it true (p. 14) that "concerning the size of firms in different industries much fuller information is available for the United States": the American census of manufacturers deals with size of establishments, that is, plants, not firms. This confusion leads to a fallacious comparison (p. 155) of the small size of American grain-milling plants (not firms) "employing in 1919 an average of under five men," with the large size of British firms.

But the definition most conspicuous—and confusing—by its absence is that of the constantly used phrase "large-scale." Theoretical economists usually mean by this phrase that the quantities in which any one commodity or line of commodities is produced and exchanged, the scale of *operations*, is large. Descriptive economists, on the other hand, mean that the firms or plant involved, the scale of *organisations*, is large. Had Mr. Robinson's method been more statistical he would have been compelled to adopt definitely one or other of these meanings.

He could not have measured the sizes of units without deciding first whether the units were to be organisations or operations. But though his thesis implicitly favours organisations, the importance of the scale of operations haunts his progress like a will-o'-the-wisp, and definitely bogs him in the chapter on the optimum marketing unit. He stresses (p. 65) the economies "the large firm" can obtain because it can "buy large amounts of raw material as a single order" and "can afford expert buyers, backed up by all the resources of scientific knowledge and equipment." But surely it is the firm (possibly quite small) specialising entirely in one line, and buying the materials for this line in large quantities, that can employ the expert in that line and that can buy in bulk, not (the possibly large) firm with a multitude of lines of operation. In fact, Mr. Robinson's important conclusion that the limit to the size of firms lies in the increasing cost of the management, seems to imply that with growth more and more lines are taken on. If, on the other hand, growth occurs merely by expanding the original lines or even by standardising and reducing the number of lines, until mass production is attained, then management may become less difficult per unit of output as the output increases. But deprived of preliminary cackle one is even left in doubt whether it is output or something else that is the measure of large-scaledness, though presumably to compare and reconcile various optimum sizes there must be some common measure. In the chapter on marketing we are, for once, specifically told that selling on a large scale means selling, as does the village baker, to numerous customers. But that is surely the very opposite of selling in bulk, and makes utter nonsense of what was said of the economies of large-scale buying. Or are we really to define the measure of largeness for buying and for selling differently?

When the analysis is carried over from the firm to the industry, as it is in Chapter IX under the title of the Optimum Industry, the importance of scale of operation as against scale of organisation becomes obvious, since competitive industry has no organisation. Nor, as Mr. Robinson recognises, has an industry much continuity, it is (p. 13) merely a "classification of firms which may for the moment be convenient." As the amount of production increases, the constituent firms of an industry may gain economies of large-scale operation by concentrating on different types of work, and thus may break up into several specialising industries. But this implication of his own notion of an industry seems to have been missed by Mr. Robinson when he concludes,

after a passage of almost scholastic dialectic (p. 138), that "as an industry grows, the gains from further growth gradually disappear." The dialectic assumed a given set of firms grouped into permanently constituted industries referred to (several times) as *the* main or *the* subsidiary industries. In reality there is no scope for the definite article. Firms, at least in the long period, do not stay put, but by altering their work are continually falling into a new kaleidoscope of industries. When Mr. Robinson concludes that "external economies apply to a very small proportion of the total costs of an industry," one suspects he is thinking of the external economies possible in the short-period as against the long-period internal economies—reorganisation seems to be allowed, for the purposes of his argument, internally but not externally. Take the case of raw material he himself cites as so important. The cost of the raw material of a finishing industry might be enormously decreased by external reorganisation of the previous stages of production consequent upon an enlargement of the whole scale of production. Lateral disintegration may be introduced, so that a larger scale of operations and increasing returns become possible for each sort of ingredient. (Why, by the way, does Mr. Robinson avoid the lateral dimension so happily explored by Mr. Robertson in an earlier volume of the same series?) Or vertical disintegration may be introduced so that a larger scale of operations and increasing returns become possible for each of the earlier stages of production.

Mr. Robinson deserves the gratitude of all who wish to bring description closer to theoretical economics. He should have abolished for ever that untidy washing-list of "advantages of large-scale business" that it is the delight of every examinee to reproduce still more untidily. Students will now have to think whether the advantage is technical, managerial, financial or perhaps, after an optimum point, merely fanciful. If Mr. Robinson has not been so successful in breathing life into the increasing return conceptions of the theorist as he has in disciplining the thoughtless exuberance of the descriptionists, we can only hope that he will return to the charge with the same economic plus technical and psychological apparatus of thought, and the same flair for the happy illustration here displayed. Finally, author and printer may be congratulated on the absence of all but a few minor errors. It is not true to say (as on p. 15) that in 1911, 51 Lancashire firms were of exactly 100,000 spindles; if original sources are consulted it will be found that that number

were of sizes between 90,000 and 100,000 spindles. And surely the multiplicity of small firms is evidence not "of a wealth of managing ability" (p. 51), but simply of a wealth of managing ambition.

P. SARGANT FLORENCE

The University,
Park Road, Birmingham.

Trade Depression and the Way Out. By R. G. HAWTREY. (London: Longmans, Green & Co. 1931. Pp. viii + 84. 2*s*. 6*d*. net.)

MR. HAWTREY, like other prudent writers in these days, has put a date at the end of his Preface, so that we know that his work left his hands on August 26, 1931, nearly a month before the Bank of England made history repeat itself by following the ignominious precedent of 1797. So, always ready to do as I have been done by, I will not complicate criticism by taking into account what has happened since last August.

The Way Out, which is far more interesting to most of us than How We Got In, was to be found, according to Mr. Hawtrey, in the often-recommended but never really tried-out plan of lavish buying of securities by central banks in general or even by one or two of the most powerful acting alone.

"Purchases of securities by the central bank in the market have the effect of creating new money, and that new money, so far as not required elsewhere, appears as an addition to the reserves of the other banks. By this process their reserves can be expanded *to any desired extent.* They can be flooded with idle money. And here is the motive for additional lending" (p. 74).[1]

The "new money" which is said to be "created" seems to be nothing but the amounts due from the central bank to the sellers of the securities. These sellers must be taken to have received cheques from the central bank and to have paid them in to their accounts with the commercial banks, which in turn have taken them to the central bank and been credited with their amount. There is no difficulty so far. If the holders of the securities are willing to sell at a price which the central bank

[1] Mr. Hawtrey does not say how much extra lending would be financed by the purchase of a given amount of securities. An American adherent of the buy-securities policy, whose type script has been circulated, says a purchase of, say, 500 million dollars' worth "would make available ten times that amount," no doubt confusing nine-tenths of the deposits with ten times their amount.

is willing to pay, and deposit the price paid in the commercial banks, which then leave that price with the central bank, the central bank can buy securities *ad libitum,* since all that it gives for the securities immediately comes back to it. Banks, Mr. Hawtrey tells us, defying the proverb *ex nihilo nihil fit,* can "create money out of nothing" (p. 4), but a purchaser requires no such mystic power in order to be able to buy unlimited amounts of anything so long as the seller is content to allow the purchase-money to remain in the hands of the buyer without even asking him to pay the market rate of interest.

To the mind of anyone accustomed to think of himself as exercising free-will in his relations with his banker, the next move after the central bank has credited its customers with the purchase-money of the securities will appear to lie with the sellers of the securities. So far, they have parted with their property and the prospective income from it, and own nothing in place of it except the right to draw on their banks (and through them on the central bank) for the purchase money. It is certain that they will not long be content to refrain from touching the additions which have been made to their normal balances. They will want to apply them to some income-yielding purpose, and what exactly will happen will depend on them and not on their banks and some imaginary borrowers.

They might, of course, considered as a whole, decide to buy back the securities sold, and if the central bank was willing to re-sell, the film, so to speak, would be worked backwards, the "new money created out of nothing" would be de-created and turned into nothing again, and all things would revert to their former condition except for the expenses and profits or losses of the two parties concerned. But if they decide in favour of new enterprises, either of their own volition or because the central bank absolutely refuses to re-sell the securities, they will still draw out the abnormal portion of their balances, and their banks in turn will draw out the abnormal portion of their own balances from the central bank. In other words, the central bank will be asked at length to pay for the securities bought in something more substantial than a mere entry in its books of the amount due. And the only means it has of paying something more substantial is either to part with gold from its reserves or to increase its note issue. As it has long been usual to hold securities "against" such part of the note issues as is not covered by gold, this means that the buy-securities policy has little claim to novelty.

Mr. Hawtrey himself would admit that it seems to be essen-

tial for the success of the buy-securities policy that the central bank must be willing to increase currency and pay out gold. He contemplates boldly the possibility that if his policy had been adopted, the Bank of England's holding of gold might have been reduced to fifty millions (p. 80). This suggests the question, Is it any use to urge the adoption of a policy of lavish buying of securities without first, or at any rate simultaneously, demanding a change in the laws, regulations and popular beliefs which make it impossible for the central banks to carry such a policy to a successful conclusion? After all, bankers must be bankers, and their first duty is, as the Bank of England Directors used to say, "to care for the safety of their establishment." So long as legislatures insist on prescribing minimum reserves, and the public, domestic or foreign, insists on becoming panic-stricken when these minima, no matter whether they are professedly "elastic" or not, are approached, banks will try to keep well above those minima, and they will be right to do so.

In the present state of law and public opinion in the world at large it is simply impossible for bankers to work the gold standard in the way Mr. Hawtrey would quite rightly like to see it worked. They should not be shot at when they are doing their best. What ought to be attacked is the mischievous legislation which is always attempting to stereotype obsolete practice. Mr. Hawtrey may believe that the bankers would not act rightly even if they were allowed, because they do not think rightly at present. But thought as well as action is conditioned by environment, and it is worth while to ponder a little over the fact that there was no complaint of banks "following a restrictive policy" before the legislatures tied them up and took from them the profits of note issues. The complaint then was that they were too venturesome.

EDWIN CANNAN

The Gold Standard in Theory and Practice. By R. G. HAWTREY. Second Edition; with a further Chapter. (Longmans. Pp. 168. *3s. 6d.*)

MR. HAWTREY'S book was reviewed in our issue for June 1927. To this new edition there is added a chapter on the events which have followed the return to gold, with particular emphasis on the use of discount rates in England and America, and the banking position of France. As regards the future, Mr. Hawtrey retains his objections to the policy of a stabilised paper pound, preferring a return to the gold standard after a reasonable degree of stability is in sight, and only on condition of a measure of

international co-operation. In his view, England and the United States are strong enough to carry a policy of stabilisation of gold prices even without the participation of any other country.

D. H. MACGREGOR

The Gold Standard and its Future. By T. E. GREGORY. (Methuen & Co. Pp. 115. 3*s*. 6*d*.)

IN the first chapter of his book, Professor Gregory makes the approach to the working of the gold standard through the conception of an "integrated price and income structure," so maintained that the balance of payments does not require considerable gold movements. But to maintain this, the operation of the standard must function according to rules; with consequent adjustments in relation to employment, tariffs, and international movements of funds. The failure to maintain these adjustments was not, in his view, due to a general gold shortage, or entirely to a maldistribution of gold; the latter may have been an effect rather than a cause of the uncertainty of the international conditions. Allowance has also to be made in the post-war period for exceptional political influences, the rigidity of the economic structure caused by attempts of groups to stabilise prices and wages, and tariff policies. He does not think that Central Banks have failed in co-operation, or that conformity to public opinion in this respect is the best test of the working of Central Banks.

In a further examination of the causes of the breakdown, it is pointed out how the policy of 1925 has been affected by new competitive conditions, the under-valuation of other currencies when stabilised, the world stagnation in demand, the imperfect transferability of labour, and even the effects of technical improvements on unemployment. The accretion in London of foreign balances through pre-stabilisation flights from other currencies created gold liabilities when the standard was restored. The position was vulnerable in so far as the rigidity of our structure compelled us to seek to retain these balances, though the balances were also a source of danger. On the top of this, political events created suspicion abroad of the position in England. The gold standard, in other words, did not break down on its demerits, or even entirely on the demerits of its British management.

But it has broken down, and the *de facto* position leaves us free to discuss future policies. The improbability that France and the United States will go off gold is a major fact in that discussion. *Prestige* has to be considered; our bargaining position is less

than we imagine. Are these countries, if themselves on gold, likely to be free lenders to countries not on gold? Will the London market, with financial instincts what they are, not be prejudiced as a centre for international services? Are the interests of all parts of the Empire sufficiently identical for the working of a currency based on and managed in London? There is a full discussion of these questions, with the alternative in reserve that *a* gold standard need not now mean *the* gold standard of heretofore.

There are two important conclusions. First, that the pound is now undervalued, since the United States will probably be unable to prevent a rise in gold prices; this is a reason for not acting too quickly in seeking a new parity. Second, the new parity should not be one which requires too continuous co-operation in maintaining it; it should work as far as possible within its own framework.

This closely reasoned book is fully documented with a Statistical Appendix. It is needless to say that it stands out as an expert contribution to this controversy. D. H. MACGREGOR

International Gold Movements. 2nd edition, enlarged. By PAUL EINZIG. (Macmillan. 1931. Pp. xiv + 168. 7*s.* 6*d.*)
The International Gold Problem. Collected Papers. (Oxford University Press. 1931. Pp. 240. 12*s.* 6*d.*)

BOTH these books on the gold question were written before September 1931, and for this reason neither of them deals with the possibility of England being off the gold standard or on the gold standard at any but the old parity. Though this limits their usefulness as suggesting possible monetary policies, yet each in its way is a very able treatment of the working of the post-war gold standard.

The first edition of Dr. Einzig's book has already been reviewed in this JOURNAL, but there is much new matter in the second edition, the most important portions of which have already appeared as articles in the JOURNAL. Dr. Einzig is excellent when he is explaining technical developments in the operation of the gold standard—*e.g.* the influence which Central Banks can exert upon the gold points, the effects of the Bank of France's refusal in 1930 to accept standard gold or the effects upon the London gold market of the possible distribution of the African gold supply by aeroplane via Cairo. But as a monetary theorist he is less successful. His new chapter on "Price Levels and Gold Movements" tells one very little, certainly nothing that was not

known before. His whole theme is that the gold standard should be made to function automatically again : he can see no argument in favour of Central Banks interfering with the flow of gold by various devices in spite of Mr. Keynes' suggestions in the *Treatise on Money*—and even in spite of the note which Mr. Keynes appended to the author's chapter on Fine Gold *v.* Standard Gold when it appeared as an article in this JOURNAL.

The International Gold Problem is a collection of papers read to a study group on the gold problem of Members of the Royal Institute of International Affairs, together with the discussions of and comments on those papers. Its great charm is that it expresses in conversational form the views of many experts as they developed in the course of one and a half years from December 1929. A volume containing papers by Sir Josiah Stamp, Mr. Robertson, Mr. Kitchin, Sir Otto Niemeyer, Dr. Palyi, Mr. Kisch, Mr. Brand and M. Rist on this subject is naturally of very great interest. It is impossible to discuss each paper here, but the paper and discussion which is to my mind of the greatest interest is that in which Mr. Robertson discusses the question "How do we want gold to behave?" For here the fundamental desideratum of policy is discussed, and the conclusion is clearly reached that with any international standard a policy chosen to suit one country might very possibly be unsuitable for another.

J. E. MEADE

Hertford College,
Oxford.

The Tragedy of the Pound. By P. EINZIG. (Kegan Paul. Pp. 203. 7*s.* 6*d.*)

This Gold Crisis. By F. W. PETHICK-LAWRENCE. (Gollancz. Pp. 240. 3*s.* 6*d.*)

DR. EINZIG's extremely readable book is perhaps misnamed. He does not seem to conclude that all that has happened is to be regretted; on the contrary, he believes that England has in some ways regained freedom of action in international finance and politics, and that in other ways she has received a "timely warning" to set her house in better order. The "epic struggle" which the opening chapter relates with heroic analogies may have been right as a matter of prestige, but if the pound went down fighting, its revival is foreshadowed at the end, if not in glittering, at any rate in still shining armour.

France comes badly out of Dr. Einzig's discussion of the

fundamental and direct causes of the crisis; the hoarding of gold is put mainly to her account. New "rules" of the gold standard have to be made for the post-war conditions; there cannot be so much freedom of national gold policy, and no country should artificially increase its stock.

In the historical survey, Dr. Einzig concludes that the expectations of the policy of 1925 were not at the time unjustifiable. There were "errors and omissions" in carrying out that policy, as regards the bank rate, the failure to give publicity to the support given to banks, the use of finance bills, and the imperfect foresight of the international loan position. For a market of its degree of liquidity, the loan market is defective in its indices of information.

The case for a late or early stabilisation, and for a high or low level, is collated in the final chapters. Dr. Einzig is in favour of a relatively low level, and not till the Bank has 200 millions, clear of liabilities. But he seems also to favour a "partial remonetisation" of silver, and some new gold policy in which gold will play a part, without currency being pegged to it. The end is therefore inconclusive, but the journey is interesting.

Mr. Pethick-Lawrence's book, written in brief sections in the easiest possible language, is such a summary as anyone might write down to clear his own thoughts, and his readers will find the same elucidation. Its simplicity of expression gives a first impression of elementary treatment. But brevity and conciseness go here with apt statement. This is what lawyers would call an "opinion" on the gold crisis. Deflation is the cause of unemployment, and the roots of deflation are in war debts and government policies. There must be international action to deal with this at once. For the future Central Banks must have more public responsibility for their policy. Internationalism must also be the final solution of currency policy, getting rid of gold, and substituting reasonable management. This clear monograph contains no tendentious paragraph, and its synopsis is a service to the general reader. D. H. MACGREGOR

The Crises of 1931. By D. T. JACK. (London: P. S. King & Son. 1931. Pp. 60. 2*s*.)

MR. JACK gives no date, but internal evidence suggests that he wrote in October and November. His work consists of a succinct history of the events which immediately led up to the September collapse, an attempt to analyse the forces which brought about that collapse, and suggestions for our future conduct.

The adage that it is easy to be wise after the event should not deter the historian from being so. Mr. Jack, though alive to the danger of the practice attributed to Continental banks of locking up too much of their resources in unliquid securities, does not seem to lay sufficient stress on the want of wisdom which we can now see was displayed by London in relying on the assumption that nominally liquid securities would be really liquid in case of a panic. The City, supported by a certain school of monetary theorists, backed the short-sighted parsimony of the Treasury in keeping afloat several hundred millions of national debt which should have been funded soon after the end of the war, and reliance on their holdings of this must have had a good deal to do with the readiness of various institutions to take charge of foreigners' money. But when the foreigners had been thoroughly frightened by the doleful outcries of politicians and the mutiny in the fleet (which Mr. Jack omits to notice), Treasury bills were of no more use to London as a whole than Consols.

In regard to future policy, Mr. Jack desires that "at the earliest opportunity some official pronouncement should be made," but he does not make it very clear when he thinks the earliest opportunity will occur, nor what pronouncement he would like. He is in favour of some kind of return to gold standard conditions (p. 56), but he shows some appreciation of the often overlooked fact that the collapse of September 1931 must inevitably greatly increase the greediness of gold-standard central banks for reserve gold, and so increase the tendency of gold to appreciate, thus making gold (in the absence of new and as yet unthought-of arrangements) a much worse standard in the future than it has lately been. Going back at a new and lower parity instead of the old would make no difference to this; it is just as easy for 100 grains of gold to appreciate as for 123. We are really in this position; if we stay off gold, we run the risk of falling into the fire of wild inflation, but if we go back, we shall certainly be in the frying-pan of rapid appreciation of the standard.

EDWIN CANNAN

This Money Maze: a Way Out of the Economic World Crisis. By ROBERT EISLER, Ph.D. (London: The Search Publishing Co. 1931. Pp. xvi + 116. 1s.)

As it is graced by a Preface from the hand of Sir Josiah Stamp, a reviewer approaches this work with the expectation of finding something useful. But Sir Josiah's preface, a dissertation on the

importance of the price-level, contains no reference to the book, and, as it is mentioned in the text (p. 80), it is permissible to conjecture that it was written before the book itself. It was probably a feeling that Sir Josiah gave him no testimonial which led Dr. Eisler to preface the Preface with a " Foreword " by Sir Thomas Barclay, for whose qualifications to testify, he himself vouches in a footnote. Sir Thomas, at any rate, has read Dr. Eisler's proof and concludes " I can only say that I find his reasoning, so far as I am concerned, unanswerable."

It is difficult to answer the arguments of a nightmare. Dr. Eisler hopes to combine such advantages as come from a steadily depreciating currency with those that come from a stable unit of account. Under his scheme there will be great but uniform international inflation and depreciation of currencies, but complete international and temporal stability of monetary units;

" ' Current money,' or money proper . . . will be exclusively used for small transactions between persons not sufficiently well known to one another or not in possession of a bank account, especially for the payment of wages, transport fares and occasional retail purchases, while all other payments will be effected by means of bank money, that is, cheques . . . or transfers of money *banco*. All prices in the better-class shops will be marked in money *banco*, the index multiplicator of the week being affixed at the cashier's desk, who will calculate by means of simple multiplication tables published by the Sunday papers the sums due in 'current money.' This is how retail business, inn and hotel-keeping was done in Germany at the height of inflation in 1923, when the 'stable mark' was introduced as a money of account alongside the paper mark used as 'current money.' . . . In each country the external exchanges between the national and the foreign bank moneys will be pegged, but a variable internal exchange rate between current and bank money will be determined by the cost-of-living index.

"Current money will . . . slowly but constantly depreciate. . . . This will force commercial and clearing banks to diminish as far as possible their cash reserves by increasing their deposits at the national banks, and all private people to spend or to deposit current money as quickly as possible. In this way the velocity of monetary circulation . . . will always be maintained at its maximum value " (pp. 97–99).

Now that he is a Director of the Bank of England, Sir Josiah Stamp should set narrower bounds to the exercise of his good nature.

EDWIN CANNAN

The Problem of Maintaining Purchasing Power: a Study of Industrial Depression and Recovery. By P. W. MARTIN. (London: P. S. King & Son, Ltd. 1931. Pp. xiv + 314. 15*s*.)

MOST of the classical economists held the view that general over-production was impossible, since the goods that were produced formed the means of payment in the exchange of one for another. Mr. Martin accepts this as regards values when exchange is regarded as essentially barter, but denies the validity of the proposition as applied to modern industry. In modern economy, before goods are produced services have to be paid for in wages, rent, etc., and dividends are only paid out after the goods are sold. A second exchange takes place when the wages, dividends, etc., are used to purchase goods. The lag in time may be regarded as equivalent to the holding of increased stocks and all the transactions may be regarded as taking place simultaneously in finished goods. The opportunity now arises for discrepancies between the value of the goods produced and the money offered for them. The various cases are worked out in much detail and with a great deal of repetition, not always unnecessary. Mr. Martin summarises them as follows:—"Additions to working capital, reductions in the money volume of commodity stocks voluntarily held and reductions in the total quantity of money in circulation make for a corresponding deficiency of purchasing power; reductions in working capital, additions to the money volume of commodity stocks voluntarily held and additions to the total quantity of money in circulation make for a superabundance of purchasing power" (pp. 70–71). Deficiency of purchasing power may be considerable and its immediate effect is to reduce prices and to diminish business activity, in which case, even if the goods produced are sold at remunerative prices, there will not be a sufficient pressure of purchasing power to keep industry reasonably fully occupied. Reduction of prices due to increased efficiency is good in itself, but the burden of debts is thereby increased and the psychological effect of a falling price level is always bad. On the other hand, "excessive superabundance" of purchasing power leads to inflation terminating in a destruction of purchasing power.

The desideratum is that there should be a sufficient supply of purchasing power to keep all industry fully employed at remunerative prices, so that not only will current production be taken off the market but there will be continued reproduction.

Mr. Martin reminds us that John Stuart Mill says that in a commercial crisis there is " an under-supply of money." To-day we are suffering from such a deficiency and are unable to maintain our objectives of stability in the exchanges, in prices, in finance, and in business. To secure the injection of fresh purchasing power into a sick economy Mr. Martin urges the appointment of a non-political Purchasing Power Adjustment Board which should accumulate a fund from taxation and finance necessary public works to a moderate degree through ordinary trade channels; the cost of these works would be covered by loans—new money—from the banks. When recovery took place an undue rise in prices would be prevented by repayment of the loans out of the permanent fund. Such national measures would, however, be insufficient. International agreement would be required to reduce the gold ratios of the central banks and either to stabilise prices in the several countries or, preferably, to adopt measures to maintain purchasing power. Mr. Martin gives brief, and necessarily imperfect, sketches of the position at the time of writing in the United States, in Great Britain, and internationally. He quotes figures of joint-stock bank deposits (p. 260) to show that after the depression which followed the boom of 1919–20 there was a deficiency of purchasing power which prevented a real recovery in 1924. Now we know from the Macmillan Report that current accounts in the London clearing banks fell from a monthly average of £1098 millions in 1920 to £950 millions in 1924, a fall of 13·5 per cent., but wholesale prices, according to the Board of Trade index, fell from 307·3 to 166·2 (basis, 1913 = 100), a fall of about 46 per cent.; consequently, the effective supply of cheque-drawing power increased at the later date.

Mr. Martin's book is clearly written and provocative of thought.

HENRY W. MACROSTY

Money and Prices. By AUGUSTUS BAKER. (J. M. Dent. 1931. Pp. vii + 216. 6*s*.)

IN this book Mr. Baker explains how a creation of new money by the banks to finance capital developments will mean that more money is spent on consumption goods and their price driven up. He considers, in my view quite correctly, that this kind of process is at the root of the trade boom and its reverse at the root of a trade slump. But his analysis is very incomplete. There is no mention of the rate of interest as the regulator of the amount of

capital development and of the amount of saving that will be undertaken. Moreover, an increase in Investment—to fall into the more usual terminology—is always due in Mr. Baker's illustrations to an equivalent increase in the amount of money; we hear extremely little of velocities.

But it is the author's positive proposals that are most questionable. The author is well aware that the increase in Investment is financed in these cases by the "forced" savings due to the rise in the price level. He considers this undesirable as giving the profit-maker in consumption industry an increase in receipts equal to the value of the increase in Investment. Mr. Baker wishes the increase in Investment to take place in many circumstances, but at the same time desires that the whole consuming public shall own the new capital. He proposes, therefore, that prices shall be legally controlled so that they do not rise above the cost of production. But he does not explain why a general rise in price is less to be desired than that the poor housekeeper, who happens to arrive last at the bread queue, should have to save her money, because those who came before her have with their money incomes bought up all the available supply of bread at the controlled price.

J. E. MEADE

The Pound Sterling: a History of English Money. By A. E. FEAVEARYEAR. (Humphrey Milford, Oxford University Press, 1931. Pp. x + 367. 15*s*.)

No department of economic thought is more in need of enlargement by historical studies than is monetary theory. It is true that Mr. Hawtrey and Professor Gregory, among others, have won ground by utilising the currency experiences of the past century and a half; and Mr. Keynes has made daring raids into earlier periods. But no one has hitherto borne the arms of the historian and those of the economist in any sustained contest. Mr. Feavearyear now proves himself adept with both and scores a notable success.

Conceiving of the pound sterling not as a specified weight of metal but as a unit of account, he traces its career from the issue of pennies by Offa of Mercia to the surrender of the Treasury notes to the Bank of England in 1928. Readers who might be inclined to pass over the chapters on the Middle Ages as of no more than antiquarian interest would do themselves an injustice, for some, at least, of the major questions of to-day were posed to the Normans and Plantagenets. There was, for example, the

problem of devaluation. The alternatives presented to the generation that survived the Black Death were whether to perpetuate the rise of prices by raising the mint price of silver, or whether to allow a foreign drain to bring about a fall to something like the pre-plague level. Fourteenth-century agriculture, like twentieth-century manufacture, had its fixed costs; class interests were involved; and the fate of the feudal system was sealed by the decision taken. The inquiry of 1382 set the stage for the first round in the battle between the sound currency school and the exporters; and the relative stability of prices in the fifteenth century is shown to have been achieved by debasements that roughly cancelled the rise in the value of silver. Then, of course, there was the everlasting controversy about the balance of trade and the possibility of non-monetary correctives. Even the reparations experts may find their prototypes in Mr. Feavearyear's pages: there is a Gallic touch in the advice offered to Henry VIII, after the fall of Boulogne, that he should celebrate the victory by setting up a mint in the town, and that coins of base metal should be struck "so that the inhabitants might have something by which to remember the occasion."

It would be wrong, however, to leave the impression that Mr. Feavearyear is engaged in the facile pastime of collecting historical "parallels." His book—and especially the first part of it—is a piece of original scholarship, written by one who is theorist enough to be able to separate what is vital and significant from what is merely accidental or irrelevant; and many errors of earlier historians are set right.

Successive chapters treat of the debasements of Henry VIII and Edward VI, of the reforms of Elizabeth, and of the growth of credit in the seventeenth century. The insecure and, indeed, somewhat disreputable origins of English banking are carefully charted; the foundation of the Bank of England is exhibited as the piece of inflationary finance it really was; and the issue between Lowndes and Locke is sharply exposed. Perhaps the least satisfactory part of the treatise is that dealing with the eighteenth century. One suspects that the author, like other writers, underestimates the extent of banking facilities in the provinces, and overlooks the financial services rendered by the larger industrialists as distinct from the shopkeepers. The crisis that followed the Seven Years' War is passed over without any reference to the paper money by which the war had been financed. And, though there is excellent work in the chapters on the Bank Restriction, no use is made of Professor Silberling's study of the

period, and perhaps insufficient stress is laid on the part played in the inflation by the country banks.

The elaboration of the technique of central banking in the nineteenth century is carefully traced; the arguments of the Currency and Banking schools are summarised, and the weaknesses in the case of each are indicated. The final chapter on the war and post-war years gives due weight to causes operating on the demand for money, no less than to those acting on supply; and, if it contains little that is novel, it is, nevertheless, perhaps the best résumé of recent currency events that has yet seen the light.

Throughout, Mr. Feavearyear has sanity and balance. Just as there is unbroken continuity in the subject-matter, so there is consistency in the running comment; and the reader is enabled to follow not merely the historical sequence but also the logical stages, first in the evolution of an automatic monetary standard, and then in the development of credit control. The higher peaks of currency theory can never, perhaps, be scaled without deductive or mathematical processes not available to all. But, with Mr. Feavearyear as guide, the story of the pound sterling may be used by teachers to convey the essentials of monetary doctrine, and, at the same time, to give a new meaning to much that now passes as economic history.

T. S. Ashton

The University of Manchester.

The Provision of Credit with Special Reference to Agriculture. By H. Belshaw, M.A. (N.Z.), Ph.D. With Two Chapters upon the Provision of Rural Credit in Great Britain by R. R. Enfield. (Cambridge: W. Heffer & Sons, Ltd. 1931. Pp. 314. 10*s*. 6*d*.)

There is a great need in agricultural literature for a thorough sifting of the problems of the capitalisation of agriculture and also for a first-class work of reference on established rural credit systems throughout the world. The writing of either would be a task of very considerable magnitude. Dr. Belshaw, by combining theory with description of established systems, may appear to have attempted to combine both tasks in the one book, but, as the book is primarily designed for the instruction of students, no claim is made either of exhaustive discussion of theory or of comprehensive reference to established systems.

The exposition of the place of capital and credit in industry

generally and the analysis of the principles of a modern agricultural credit scheme are sustained with great clearness and effect. If one were to criticise the theoretical side of the book, it would be on the score of being perhaps too matter-of-fact (if the expression is legitimate in describing a theoretical discussion). The problem of capital and credit in agriculture is much wider than the establishing of an orthodox agricultural credit scheme by legislation. Dr. Belshaw, by his emphasis on this latter practical aspect of the problem, gives the appearance of dismissing too summarily a number of problems which are fundamental. For example, among the characteristics of agriculture which mark off agriculture's credit problem from that of other industries, Dr. Belshaw does not discuss the method of capitalisation which plays an all-important part in determining the organisation of the industry. All the capital in agriculture which takes the risk of profit or loss is provided by the entrepreneurs themselves. There is practically no capital employed equivalent to ordinary share capital in industry. Official credit systems do not alter the fundamental situation. They endeavour only, through State-guaranteed institutions, to supplement the existing resources of the entrepreneur's personal capital by schemes which on the one hand place on the farmer what in times like the present is a heavy burden of fixed-interest debt with compulsory repayment by annual or semi-annual instalments of the principal, and on the other hand offer the investing public what is virtually a gilt-edged security. On practical grounds, governments have very little choice. It has not been considered a part of their function to attract speculative capital into the industry nor to set about reorganising the financial basis of the industry, whereas it has been universally recognised that they may subsidise the establishment of special credit facilities on the above lines. But economists especially would probably have welcomed from Dr. Belshaw a wider discussion which would have gone beyond the practical limitations of governments and have raised the issue of the possible reconstruction of capital in agriculture.

Dr. Belshaw does not embark upon the colossal task of providing a work of reference on established systems of rural credit throughout the world. His aim is rather to use the systems established in four countries to illustrate and emphasise the essential features of long-term, intermediate and short-term credit. His choice, too, is limited to countries where agriculture is conducted mainly on a commercial basis. He does not, therefore, include discussion of the problem as it is raised in

countries like India and China, or even in the European peasant communities.

Of the countries with which he does deal, Dr. Belshaw, in his preface, confesses to the limitations set " by the information available to one working in a rather remote corner of the world." His descriptive material and criticism are restricted to the U.S.A., Germany, New Zealand, and Great Britain, with brief appendices on the Crédit Foncier de France and Rural Credit in South Africa. Those readers who are already familiar with the main features of the rural credit problem would probably seek other sources, which are readily available. for fuller discussion of the U.S.A. schemes, while the sections on Germany are seriously crippled for reference purposes by being entirely confined to pre-war conditions, information on which is also readily available elsewhere. The discussion, however, of credit conditions in New Zealand, with which Dr. Belshaw has been intimately familiar. and the excellent review by Mr. Enfield of the Agricultural Credits Act, 1928, of Great Britain, will be of value to all readers.

Having reviewed Dr. Belshaw's book for the limitations of its scope, one cannot commend it too highly for those things which it sets out to achieve and in which it succeeds in no small measure. There have been very few recent attempts in English to present a review of the problem in book form for the guidance of those who wish to comprehend the main problems of agricultural credit but who do not have access to the treasures buried in Government reports and elsewhere. For this public and for the large body of students of agriculture and economics for whom an introduction to agricultural credit is essential, Dr. Belshaw has provided an admirable work. The straightforward style and the firm structure of the book are excellently suited to this purpose.

The plan of the book makes necessary a certain amount of reiteration of the essential principles of a credit system, which is no disadvantage where the primary purpose is the introduction of students to the subject. Part I outlines the general problem of capital and credit. This method of attack is one of the best features of the book for teaching purposes. There is always a tendency to treat agricultural credit as an isolated problem for the simple reason that in most countries it does appear in practice to have very little immediate association with the general credit problems. Part II proceeds to examine the special conditions of agriculture and the demands which these

conditions create for a credit system peculiar to the industry. Part III deals with long-term credit, first as to its general principles and then by examination of the systems developed in Germany, U.S.A., New Zealand and Great Britain. In each case an outline is given of the machinery and an estimate made of its weakness or strength. Part IV deals with short-term and intermediate credit on the same plan. As already stated, the chapters on long-term and short-term credit in Great Britain are contributed by Mr. R. R. Enfield and are presented with the conciseness and lucidity which characterise all his writing.

J. P. Maxton

Agricultural Economics Research Institute, Oxford.

Banking Standards under the Federal Reserve System. By Horace Secrist, Ph.D., Bureau of Business Research, North-Western University, Illinois. (Chicago and New York: A. W. Shaw Company. 1928. Pp. 420 + xxxviii.)

Professor Secrist has been engaged for some years in investigations concerned with the operations of individual firms and groups of firms in various departments of trade. These studies have been statistical studies of data illustrative of location of the business unit in relation to the centre of activity of the place in which the unit is situated, of size of the unit both from the point of view of "physical" size and from the point of view of volume of business, of operating expenses, wages, rents, and so on, of turnover and of profits. These studies have covered a wide field, having been concerned with retail clothing, hardware, etc., and in addition with banking. Professor Secrist has appended a list of publications by his department on these topics to a paper by him in the *Journal of the Royal Statistical Society*, Vol. XCIV, 1931, p. 591. In all these investigations the same kind of statistical results are achieved, a tendency, broadly speaking, for certain statistical ratios in the nature of averages, derived for the individual units, to remain fairly constant, as far as whole groups of units are concerned, over a period of years, which in no case is more than ten.

The present volume gives the results of such investigations in the Banking field. These results really are concerned with two kinds of original statistical data. The first deals with statistics for each of the twelve Federal Reserve districts as units, and the data are total earning assets, loans and discounts,

investments, total deposits, time deposits, demand deposits, gross earnings, total expenses, salaries and wages, interest on deposits, interest and discount on borrowed money, taxes, "other" expenses, and net earnings. The period covered is 1919–25. The second part deals with statistics for the Boston District and the New York District. The units are individual banks, the data are of the same kind as in the first part but not in such detail, and the number of years for which data were available is less. The secondary statistics which are used to reduce the original figures to comparable statements are simple ratios mainly of the data characteristic to "Earning Assets." In other words, the figure of "Earning Assets" is, for the most part, that which is used as a datum to which the other figures are referred. The book consists, as to the first part, of an examination of the changes which take place in these ratios from year to year (1919-25) in the case of each of the twelve districts, and an examination of the likenesses and differences between the different district figures year by year; and as to the second part, of a more intimate examination of the changes taking place in some of these ratios from year to year in respect of individual banks and the similarity of experience between different banks.

The enormous amount of work involved in such a study as this, which has just been outlined, will be appreciated, and only by a combined effort on the part of a group of people could such a task be undertaken with the hope of arriving at the end of the labours within a short space of time. Such efforts are possible by the Bureau of Business Research of which Professor Secrist is the Director. The Bureau and its Director are to be congratulated on this achievement. The results of the investigations are set out in great detail with the accompaniment of tables and, where necessary, of graphs, so that anyone interested in any particular aspect of banking practice in the United States in recent years can easily obtain here, in a concise form, a statistical survey of the results of the operations of such practice. Indeed, this last was one of the expressed intentions of Professor Secrist in pursuing the investigation. It was assumed, by him, that banking experience over a series of years would show, on detailed analysis, tendencies of one kind or another which could be measured, and that these would have a practical value in the sense that, if they undoubtedly existed, they would serve as bases to the banks when, in future, questions of policy would arise. Naturally, certain of these would probably be well known in banking circles, but it was possible that the general as opposed

to the local aspect would expose other points of view not immediately apparent to the practical banker. Furthermore, having discovered, in his detailed examination of statistics relating to certain retail activities, certain pronounced tendencies, the author could see no reason why the same kind of result should not be obtained in these investigations in the banking field, on the grounds that there were operating the same kind of economic motives in this field as in others.

Further, it was hoped that a knowledge of these results would have ecomonic significance, on the grounds that they emerge as a result of the working of economic forces. The author finds conclusive evidence of *order* in the banking system, "its several parts, geographical and group, responding in much the same manner to change, and its several processes being interrelated in a definite manner." He finds that ratios tend to certain standard or "norm" values over a period of years. District or group ratios which are high or low in a given year with respect to the average seem to decrease or increase until they are nearer the average in the following year, as though forces were in operation constraining the institutions to achieve certain results. On the other hand, geographical considerations appear to have effect on the size of ratios. The ratios of certain districts are consistently above and those for other districts are consistently below the average. Similarly, differences in ratios between banks are associated with size and location, and these persist from year to year. Naturally, as the author points out, each district has its own standards of banking requirements; these are associated with the peculiar distribution of money, credit, and industry, determined partly by geographical features, and these geographical features tend to persist from year to year. Changes originating from any one centre tend to be felt in all the various parts of the system and give rise to the peculiarities noted in the book. How far administrative changes subject to a conscious standard of what is "right" are associated with these changes, or how far these changes are associated with competitive forces working "blindly," is the speculation the author makes when discussing the implication of the results of his statistical investigations.

Professor Secrist will attempt an integration of the results of the various studies which he has made in the last ten years, which were referred to in the first part of this review. He will try to find the economic significance of these "norms, trends and correlations" to which he so often refers. There should be some explanation. This kind of study is not unusual. We ob-

serve changes or likenesses between birth-rates over a series of years and we discuss their significance. What happened in the period 1870–1925, when the birth-rate in England and Wales consistently declined, while that in Ireland remained more or less steady? If we alter birth-rate to "Ratio of Total Deposits to Earning Assets," England and Wales to No. 1 Federal Reserve District, contract the time a little, we have Professor Secrist's problem. It may be that the time element is of importance; that is to say, contrary tendencies may be discovered, say, in a period 1926–31; but if that is so, explanation is still necessary. We shall therefore look forward to the results of Professor Secrist's more recent efforts in considering the true significance of all these studies.

E. C. RHODES

Europe the World's Banker, 1870–1914. An Account of European Foreign Investment and the Connection of World Finance with Diplomacy before the War. By HERBERT FEIS. (Yale University Press; Oxford University Press. 1930. Pp. xxiii + 469. 22*s*. 6*d*.)

THIS book, by the former Sinton Professor of Economics at the University of Cincinnati, has been prepared for the Council on Foreign Relations, a body whose purpose is "to study the international aspects of America's political, economic, and financial problems." The "original purpose" of the volume was to "study the main trend of (the) migration of capital" from Western Europe into other lands. "But preliminary study soon revealed that its connections with the political and diplomatic events of pre-war days were numerous and important. The world from which the capital moved was made up of highly ambitious, competitive national states. The regions to which it moved varied enormously in the character of their peoples, their powers of self-government, their ability to put borrowed capital to good use, their political strength. The place of many of these regions in the political arrangement of the world was, even then, in the balance. Their transactions with foreign capital often settled the outcome. . . . Financial force was often used to buy or build political friendship or alliance, was often lent or withheld in accordance with political calculations." We may regret that the original object was abandoned, for a study of the development of backward or needy peoples under the influence of imported capital would have been of extraordinary interest, and probably of more value to America to-day than the

present volume. Still, a story is always more exciting when it has a villain in it, and Mr. Charles P. Howland, Director of Research to the Council, in an Introduction, brands that villain as the system of international anarchy which "called to its aid the financial strength of the counter-intriguing nations" and so produced the European War.

The intricacies of the connection between diplomacy and finance have compelled the author to limit his studies to the activities of the British, French, and Germans, and to omit from his survey America, Africa except the north, and Asia outside Turkey, Persia, China, and Japan. His first three chapters record the spread of the movement of capital from the three lending countries, its growth, geographical application, and the character of the investment. Figures are given as to the amount of the investments, the particulars being taken from various authorities who seem to the author to be competent; there is no independent investigation or criticism. Three more chapters expound the relations between finance and government in the lending countries, and these are set forth in greater detail in a series of studies dealing with particular cases of financing—Russia, Italy, Portugal, the Balkan States, the Balkan Railways, Turkey, Railroads in Asiatic Turkey, Persia, Egypt, Morocco, Japan and China. On the whole, the United Kingdom comes out of the history not badly. Her accumulated wealth early sought investment abroad, and "the satisfactory operation of the British economic system became more and more fully linked with the satisfactory development of the rest of the world." British financiers, therefore, undertook the industrial development of new lands, characteristically in the Dominions, India, and Argentina. "The general tradition and official policy" of the Government was to hold aloof from such operations, and investigation shows that the chief departures from that course, as in Egypt, Asiatic Turkey, and Persia, were due to the desire to protect the route to India. In France, on the other hand, the connection between governments and finance has a long history, and "the continued tradition of Government supervision of the stock exchanges made it natural that the Government should exercise powers of decision over the trade in foreign securities." M. Poincaré in 1912 declared that his Ministry would undertake "to combine with French military and naval power, as converging and connecting forces, the financial power which is so great an aid to France," and M. Caillaux, in the following year, avowed that "I have admitted to quotation only those foreign

loans which assured France political and economic advantages." Throughout the period covered by Mr. Feis, Germany was always in need of capital. Industry was greedy for funds, the agrarians wanted subsidies, and the Socialists were opposed to foreign "exploitation." Any movement towards overseas investment was thus met with a permanent opposition. "The investment was stimulated and maintained rather by the initiative of the German banks and industries. They recognised that Germany must participate in the financing of certain areas into which German commerce was trying to expand. It was carried forward sometimes against an unfavourable current by the Government as an investment in German commercial and political aspirations."

These broad characterisations are developed in the particular studies which reveal much that Western Europe has need to be ashamed of. If this feeling of shame leads to a purification of the soul, this book will have been justified. It is to be regretted that the author has supplied neither an index nor a bibliography and has provided no means of determining the comparative value of the authorities quoted in his notes. He himself can hardly be commended for persistent accuracy when in his chapter on China he writes of the dismemberment of that country and specifies that "in the 'eighties Great Britain put Burma under its Indian administration."

HENRY W. MACROSTY

Business Forecasting. The Principles and Practice of Forecasting Business and Stock Market Trends, with especial reference to Business Cycles. By LEWIS H. HANEY, Director, Bureau of Business Research, New York University. (Ginn & Co. 1931. Pp. xiv + 378. 17*s*. 6*d*. net.)

EVERY business man must be a forecaster or a bankrupt, and Dr. Haney wisely says that "sound business forecasting might almost be defined as the accurate analysis of existing conditions and their causes, made as a basis for a fair and wise interpretation of the trends that may logically be expected to result therefrom." To the idle query why forecasters do not become millionaires he answers : "To be a really good forecaster one must be a scientist and be willing to make laborious studies in a most impartial manner and spirit. Probably few successful business men have either the requisite time or the qualifications for such work, and certainly few forecasters who have the requisite

training and scientific attitude will be found to have the qualifications best suited for success in business." Assuredly no one who has carefully studied this excellent book will light-heartedly enter upon the profession of forecasting. Our author expects also that his art will be of service to economics, saying that "the problem of business forecasting is a challenge to the science of economics and a test of the accuracy of economic laws," but he would seem to think of those "laws" as more rigid than we on this side of the Atlantic to-day conceive them.

After a sketch of the economic background a chapter is devoted to an account of the uses of statistics in business forecasting, of the different advantages of absolute figures, relatives, and index-numbers, and of the methods of eliminating secular trend and seasonal variation. Here, as frequently, the author warns the student against making an idol of particular methods or results. "The forecaster should ever recognise that the most carefully determined long-time trend is apt to be fickle and uncertain." There remains after these deductions the business cycle of about three years. Of correlation he would, on the whole, appear to make little use. Three very valuable chapters follow in which various series of statistical data are examined and their respective merits and demerits set forth. Production, building, imports, car-loading, bank debits, sales, shipments, foreign trade, money and banking, failures, and the stock market are covered. The material is, as might be expected, entirely American, and it fills one with sadness to reflect on the scanty amount of British data available compared with the abundant supply provided in the "Surveys of Current Business" published by the United States Department of Commerce. Dr. Haney does not care for composite indices, as they give a "blurred picture"; of these the Harvard "business curve" is, perhaps, the best known in this country, and, describing it as "the simplest and most peculiar of all," he says that "clearly such a curve cannot be a measure of business volume or activity, and its virtual failure to respond to the recession of 1927 should be noted." Then come two chapters on business cycles, which he does not regard as due to external factors but to causes within business itself, originating, on the one hand, in maladjustments of production, stocks, and profits, and, on the other hand, in maladjustments of credit, capitalisation, and security markets. A general business cycle, he says, includes two or three years of expansion followed by either a sharp turn downwards or a flat top of a year; the period of recession is usually from a year to a year and a half, and the

duration of the bottom level may be brief or prolonged. Separate industries may have their own cycles; for example, that for the textile trades is about two years.

Dr. Haney's own particular contribution to the art of forecasting is the "P/V line." "The P/V line is a commodity price curve adjusted for variations in physical volume, or a series of ratios between price and volume," and is applicable both for single commodities and for business in general. By it he claims to measure the relation between intensity of demand and the intensity of the desire to sell or "selling resistance." It involves "a comparison of the changes in commodity prices with the changes in the physical supply of commodities from month to month." Bradstreet's index of commodity prices is taken as P and railway freight tonnage adjusted for long-time trend and seasonal variation as V. The derived line has a long-time trend, and when the line itself "rises above its normal trend, business recovery is forecast. When it falls below normal, business recession is forecast." It "often forecasts the trend of general business by as much as from four to six months." In his Preface Dr. Haney claims that "the barometer at least has the merit of having worked successfully throughout the trying period of the last ten years. In so far as I know, it is the only so-called barometer-line which has stood that test."

Of the remainder of the book, 155 pages are given to the discussion, with reference to American data, of the most satisfactory ways of forecasting general business trends and of forecasting for particular industries, commodity prices, interest rates, building activity, automobile production, retail trade, and stock exchange movements, and examples of the author's own estimates of the business situation at different times are quoted. A great deal more is involved than manipulations of numerical data, and Dr. Haney's perfect forecaster would be an encyclopædist. All students of industry can read this book with profit, whether they are able to use statistical apparatus or not.

HENRY W. MACROSTY

Mathematical Introduction to Economics. By GRIFFITH C. EVANS. (London: McGraw-Hill Publishing Company. 1930. Pp. xii + 177. 15*s*. net.)

THIS book is interesting as showing a mathematician's approach to economics. Professor Evans states his intention thus: "I do not attempt a voluminous or complete treatise, but give a short

unified account of a sequence of economic problems by means of a few rather simple mathematical methods." A reader who is already a trained economist and a competent mathematician will find a good deal that is stimulating and novel both in the statement of, and method of attack on, a considerable number of problems. But since there is no clear thread of economic theory in the treatment, and no attempt at a general theory of any wide region of economics, a mathematician without economic knowledge will not obtain any thorough grasp of that subject; while the trained economic student will find the mathematical treatment difficult and in many places of a quite advanced kind, while he will be bothered by the unelucidated mathematical character of the solutions. In fact, the appendix to Marshall's *Principles of Economics* is far more useful to the student of economics, quite apart from more recent studies on mathematical economics.

Unfortunately a great part of the analysis is vitiated by the assumption in many approximations that the integral supply curve is of quadratic form $q(u) = Au^2 + Bu + C$, where u units are produced in unit time, and $q(u)$ is the cost of producing them. In order that $q(u)$ may always be positive, A must be positive; therefore the marginal unit cost, $2Au + B$, has always an upward slope; that is, "decreasing return" is assumed. For "increasing return" A must be negative, and a further term is necessary so as to keep the expression positive when u is increased. This limitation is specially unfortunate in the chapter on taxation (V).

The work may be recommended to advanced students whose critical faculty is well developed because of the new vistas opened out in Chapters IV, XIV and XV, where changes of relations in time are considered. A. L. BOWLEY

The National Gain. By ANDERS CHYDENIUS. Translated from the Swedish original, published in 1765. With an Introduction by GEORG SCHAUMAN, Ph.D., Director of the University Library, Helsingfors. (London: Ernest Benn, Ltd. 1931.)

ANDERS CHYDENIUS was the son of a Finnish clergyman, and he himself was for half a century, from 1753 till his death in 1803, a clergyman in North Finland. The even course of his life was only interrupted by his being elected three times a member of the Swedish Diet as a representative of the Finnish clergy. But those periods became a time of exceptionally abundant and productive political and literary work. For the

observer studying his writings it will soon be apparent that whatever economic or political questions Chydenius may have dealt with were all founded on the same constant idea of freedom : " A native country without freedom or benefit is a large word of little meaning."

So was also the case with the economic pamphlet that has now been translated into English. Chydenius was, it is true, still a believer in the Mercantile theory of the Balance of Trade. " The value of exported goods in excess of that of imported ones is rightly called the gain of the Nation, and the value of imported goods in excess of that of exported ones will always be its loss " (p. 47). But this aim was to be achieved only through a liberal policy, a conclusion that was based upon two important theses. The one was that of natural division of labour between the industries and the nations. " Our wants are various, and nobody has been found able to acquire even the necessaries of life without the aid of other people, and there is scarcely any Nation that has not stood in need of others. The Almighty Himself has made our race such that we should help one another. Should this mutual aid be checked within or without the Nation, it is contrary to Nature " (p. 46).

The other of Chydenius' fundamental doctrines was that the individual, in endeavouring to pursue his own interests, is also promoting the public good. In accordance with this doctrine Chydenius decidedly rejected the Mercantile policy; he considered ordinances, enactments for the regulation of trade, monopolies, and all kinds of prohibition as matters causing " unnecessary and useless trouble." His own System of Economic Freedom is outlined in one of the concluding passages of the book as follows :

" It gives liberty to all lawful trades, though not at the expense of the others. It protects the poorest business and encourages diligence and free trade.

" It weighs everybody in the same scales, and gain is the right measure that shows who should have preference.

" It relieves the Government from thousands of uneasy worries, Statutes and supervisions, when private and National gain merge into one interest, and the harmful selfishness, which always tries to cloak itself beneath the Statutes, can then most surely be controlled by mutual competition.

" It allows a Swede to exercise the dearest and greatest right in Nature the Almighty has given him as man, *i.e.* to support himself in the sweat of his brow in whatever way he thinks best.

"It snatches away the pillow of laziness from the arms of those who, thanks to their Privileges, can now safely sleep away two-thirds of their time" (p. 88).

Chydenius published this system of economic thought about ten years previous to the publication of Adam Smith's epoch-making work. It is peculiar to note how well the ideas of this simple Finnish country parson coincide with those of the great Scottish economist. He did not, it is true, advance any scientifically developed system comparable to the work of Smith, as his numerous writings were more or less of an occasional nature. The same was, however, the case with other predecessors of Liberalism. But scarcely any of these economists, not even David Hume, formulated the claim to economic liberty with such energy and unfailing consequence as Anders Chydenius. He must, therefore, be regarded as a remarkable figure in the history of economic thought.

B. SUVIRANTA

Prosperity. By M. J. BONN. (London: Martin Hopkinson. Pp. 188. 7*s.* 6*d.*)

THIS study of "myth and reality in American economic life" passes before our eyes with the swift movement of a film. The post-war prosperity of America caused the changes which might have required twenty-five years to take place, in the author's view, in five years. And in this period capitalism lorded itself as the system which, after all is said, supplies the goods. Dr. Bonn's account begins with Columbia, just entered into a windfall heritage, and there are many vivid pictures of its industrial and domestic life; glimpses behind many doors, where financiers plan, the foreigner is given loans, the land pioneer settles in new clothes in a Californian suburb, and the city family operates the switches of its mechanised domestic equipment. And there are many close-ups of types; strained features mostly, of those who live quick rather than contentedly. Dr. Bonn is a keen observer of psychological tendencies, as well as of events, and as the opening picture fades into one of difficulty and disillusion his running captions are striking in phrase and epigram.

The idea to which this impression leads up is the "crisis of capitalism," the threatened failure of the "old magic," if its psychology is so devoid of memory as to suppose that every boom will be the last, and will stabilise a golden age. It is this that, to borrow an American term, Dr. Bonn has "framed." The

appeal of an impression is in the shading of its lights, the force of apt words, and the pointing of shaft-like phrases. In these Dr. Bonn is skilled; and those who have read his *Schicksal des deutschen Kapitalismus* will find here a similar provocation of economic ideas and contrasts.

D. H. MACGREGOR

Poverty in Plenty. By J. A. HOBSON. (London: Allen and Unwin. 1931. Pp. 92. 2s. 6d.)

IN this essay Mr. Hobson attempts to synthesise the moral and the economic doctrines which are widely associated with his name. In brief, he finds fault with the distribution of wealth on three grounds: first, because it is governed by the pulls of relative bargaining strength and not by any consideration of equity; second, because, by allowing favoured agents of production to enjoy a surplus over the necessary costs of that production, it is guilty of waste; and third, because it is responsible for the failure of consumption to keep pace with production.

The truth of the third (and most disputable) charge, on which Mr. Hobson has written so fully elsewhere, is here assumed rather than proved. It plays, however, not the least important part in Mr. Hobson's case; and (departing from his usual courtesy) he goes so far as to hint very broadly that those who do not accept his analysis on this matter must either be guilty of evasion or have allowed their reason to be perverted by their "interest-laden minds."

The other two propositions raise some interesting issues. The author is concerned to stress the point that all values are socially created and that nobody can therefore strictly claim to have personally produced any thing or even any value. Nevertheless he admits that, as things are, we cannot wholly ignore the force of economic motives as incentives to productive activity. He suggests, therefore, that, instead of permitting everybody to exact the highest price he can for whatever he does or sells, we should pay enough to provide the "incentive socially necessary to secure his efficient services." Clearly, in this formula it is only the words "socially necessary" which distinguish Mr. Hobson's ideal from the *status quo*; but we are given little help in determining the meaning of these crucial words. All that does emerge is that the formula would forbid the payment of any surpluses to the supra-marginal producer. Such surpluses Mr. Hobson would either spend in the development of collective

utilities (parks, libraries and the like) or in providing higher wages and more leisure for the mass of the people—thereby, presumably, paying this section of the people more than the socially necessary amount to which alone he has already decided that they are entitled. Nor is Mr. Hobson's case advanced by the argument that, if there were fewer rich to pay big prices, those who serve the rich would have to work, and would work, for less than they now demand; for that is merely a statement of one of the principles governing the *present* system of distribution by pulls, to which he so strongly objects.

Altogether this is an unsatisfactory book. There is a thundering good case to be made against the amorality and the wastefulness of existing distributive arrangements. But Mr. Hobson's essay leaves the impression that on every page the author is damaging a good cause by bad (and not always mutually consistent) arguments.

BARBARA WOOTTON

Causes and Cures of Unemployment. By Sir W. H. BEVERIDGE. (Longmans. Pp. 70. 2*s*. 6*d*.)

THIS volume, in which lucidity and skilful marshalling of statistical material go without saying, republishes six wireless talks on Unemployment given in the middle of 1931. The treatment of the subject will be familiar to readers of *Unemployment, a Problem of Industry*[1]: the pre-war problem is diagnosed as one of a reserve rather than a surplus of labour; the unemployment of 1922–29 as the result of the inflexibility of the system; and the slump of 1930 largely as the outcome of monetary factors. Other chapters deal with the broader social influences of Unemployment Insurance and remedies for the present labour surplus.

The "planning in concert" which Sir William suggests when dealing with remedies is perhaps most vitally linked with his chapter on the "dead-weight" of unemployment between 1922 and 1929. There, he argues that the increase in real wages between 1913 and 1929 has outstripped productivity per head and that the wage increase has come from a national income not appreciably larger. Whilst this contention is essential to the view that the inflexibility of the system was responsible for unemployment in 1922–29, statistics available on the question are extremely perplexing and contradictory. There are two quite distinct views of the extent

[1] Reviewed by D. H. Robertson, ECONOMIC JOURNAL, March 1931.

to which output per head increased between 1913 and 1929.[1] Moreover, it is known that in some industries, notably cotton, any index of output per head, showing movement since before the war, is almost meaningless because of changes in the quality of the product. A recent comparison of the national income in 1924 and 1930[2] suggests that the proportion which wages bear to the total national income actually decreased from 38 per cent. in 1924 to 37 per cent. in 1930. So far as statistics are concerned, the Trade Union leader who argues that reorganisation ought to precede wage reductions, even now has at least as strong a case as the employer. Perhaps the only safe conclusion to be drawn is that the measurements of these economic phenomena are still too fragmentary to be used as the basis of generalisations.

It is not possible to cavil, however, at the picture which is drawn of the serious social consequences of the Unemployment Insurance scheme as it operated up to 1930. The warning that insurance "is making life in some ways not better but worse, and is playing down to the slackness and carelessnesses of human nature, not playing up to what is best in it," is a courageous indictment which, fortunately, must have obtained as wide an audience as it merited.

JOHN JEWKES

The Riddle of Unemployment. By DOUGLAS KNOOP, M.A. (Macmillan & Co. 4s. 6d.)

UNDER the above title, Professor Knoop has printed the gist of a course of lectures given to an Advanced Tutorial Class in Sheffield. The book is not in any sense a new contribution to the study of unemployment, but aims rather at summing up the main causes of post-war trade depression and financial dislocation. As such, it is a useful addition to the growing list of hand-books which set out to explain the economic distresses of our time. Falling prices, high taxation, high wages and tariffs are all discussed in a clear and, at the same time, concise manner.

The reviewer would like to take this opportunity of venting a small personal grievance. Why should economists, who write learnedly on good and bad trade, so often nowadays disguise their real subject under some title including the word "Unemployment"? Do they hope thereby to commend their books to

[1] See C. G. Clark, "Statistical Studies of the Present Economic Position of Great Britain," ECONOMIC JOURNAL, September, 1931.

[2] See W. H. Coates, "The Citizen's Purse," *Manchester Statistical Society*, December 1931.

people who would otherwise ignore them? That certainly happens to some extent. But surely they know that "unemployment" and "trade depression" are not synonymous terms. Each can and does exist as a grave modern problem independently of the other. It might indeed be an aid to clearer thinking if Unemployment were recognised to be, on the one hand, a social question, and, on the other hand, only a negative aspect of a greater and more complex Employment question. Just as we have a Public Health (not sickness) Policy and a National *Health* Insurance scheme, so we ought to realise the need of a National *Employment* Policy. Such a policy would have little to do with the expansion of the country's business, but much to do with the more scientific regulation of the labour force required in that business, whether it is expanded or not.

R. C. DAVISON

Industrial Evolution. By N. S. B. GRAS. (Oxford University Press: Humphrey Milford. 1930. Pp. 259. 8*s.* 6*d.*)

ECONOMIC historians have never been able to reach agreement on classification. The political organisation, the extent of the market, the form of association, the nature of the work or instrument or source of power have each been used as the touchstone by which one economic period may be distinguished from another. And even those who accept the same differentia do not always use the same language. In this volume Professor Gras lays down his own scheme, though he is concerned with the evolution of manufacture only.

His first stage is that of production for use, which, he is careful to point out, is not coincident with the "household industry" of Bücher and others, for the work was often done outside the home. As a type it is to be found in every country in the world to-day; and attention is called to the way in which political forces, like Indian Nationalism or American Prohibition, may revive the type long after it has ceased to exist as a stage of industrial development. Next comes retail handicraft, or production for direct sale, which, we are warned, is not to be identified with the gild system. It is followed by wholesale handicraft, or production for indirect sale through merchants; and this is divided into an independent phase, when the worker sells his product outright, and a dependent phase, when he receives a piece wage, and perhaps works with tools owned by his employer. To some writers the first, and to others both, constitute the domestic system—a term rejected by Professor

Gras as liable to confusion with household economy. The fourth stage is that of the central workshop when—in the interests of quality and specialisation, and because of the growing recognition of the importance of time—the workers are congregated in large establishments where hand processes are carried on. In England this stage was very short and many have overlooked its existence; but it played a real and important part in the evolutionary process. When power, which had been used in the mill in earlier stages, was introduced into the central workshop, manufacture entered upon its latest stage, that of the factory system.

It is perhaps too much to hope that the new pattern will make an immediate appeal to all: neologisms like "usufacture" and "mercifacture" may deter some from a proper examination of the design itself. But that the grammar of economic history should remain as at present is unthinkable; and the effectiveness of the solution now offered is amply demonstrated in the early chapters of this volume.

After an account of the Industrial Revolution in Britain and New England, Mr. Gras reviews the progress, in turn, of the iron and steel, the boot and shoe, the chemical and the electrical industries. The history of a single, though hardly typical, American business is traced over eighty-six years, a summary is given of recent changes in industrial structure, and some interesting reflections are made on the past and future of art in industry.

As in every work of compression, there are, here and there, dangers of misapprehension. An uninstructed reader might infer that all Livery Companies had the same restricted geographical range as the gilds; he might imagine that the formation of the General Chamber of Manufacturers in 1785 marked a turning-point in English history; and he might assume that conditions in the surviving handicrafts of present-day Britain were those that prevailed before ever the Trade Boards were thought of. But these are unimportant. Professor Gras has written a sketch of industrial progress highly stimulating to thought. His net brings to the surface new data from almost every age and every country. He has an eye for the picturesque, yet he never allows the reader in contemplating the past to forget that he is living in the twentieth century. His book should be of special value to those who, entering modern industry, are curious to know both how it has arisen and where it is tending.

T. S. Ashton

An Introduction to the Political Economy of Burma. By J. S. Furnivall, I.C.S. (Retired). (Burma Book Club, Ltd. *Rs.* 2.12, or 4*s.*)

In his preface to this compact little volume, Mr. Furnivall points out that it is not a text-book of economics, but that it deals with the economic aspects of the social and political organisation of Burma. He claims that the mere statement of the facts carries its own implications and that these facts are argument for the recognition of Nationalism in Burma as a policy not only for Government but for all Europeans there, even if their interest in Burma is strictly economic. Despite his disclaimer, this book is, in fact, based on lectures delivered to students of economics in the University of Rangoon, and it is open to question whether the statement of such advanced political views as Mr. Furnivall indulges in should find a place in a course of lectures delivered to impressionable and inexperienced youths. Mr. Furnivall's political views may be summed up by saying that, like so many visionaries, he looks back with enthusiasm to a Golden Age which has all the glamour of remoteness to those who have not had the misfortune to live in it, and attributes the whole breakdown of the social organisation to the ordered Government which followed the annexation first of Lower and then of Upper Burma.

Sufficient comment on his views is contained in Mr. Furnivall's own words. Of Upper Burma he says, "Over most of Upper Burma the rainfall is so uncertain that there was often local scarcity and sometimes widespread famine . . . epidemics were not infrequent and would often wipe out whole villages. . . . In addition to these natural causes of instability, social life was made precarious by long-drawn-out wars and frequent civil strife. . . . Although there was a highly complex social organisation based on custom the continual disturbances never allowed custom to become a binding force." Of Lower Burma: "The continual warfare between Pegu and Ava, terminating with the subjection of Pegu in 1754, laid waste vast areas over which the breakdown of the social order, always imminent in Upper Burma, actually took place. In the Revenue Inquests of 1145 and 1164 B.E. we read of whole townships which had lapsed into tall jungle and high grass where the elephant dwelt and the tiger held dominion. When the British arrived nearly 100 years later, much of the country still lay waste. Hence, over the greater part of Lower Burma there was no village life, but a few scattered families

cultivating paddy in small clearings in the jungle." Everyone is entitled to his opinion as to whether the substitution for this warfare and disorder of British peace and order has been an advantage or otherwise to the people of Burma.

In this review, however, we are not particularly concerned with Mr. Furnivall's political views, and it may be said at once that his little volume gives an excellent picture of the agricultural practice and economics of Burma. For the economics of Burma are practically the economics of its agriculture. Although the largest of the Indian Provinces it is the most sparsely populated, the density of population being only 57 per square mile as against 226 per square mile for all India. It is the most literate of all the Provinces, the average number of literates over the age of ten being 576 males in Burma in every 1000, as compared with 161 in India, and 123 females in Burma as against 23 in India.

The agriculture of Burma is determined almost entirely by the rainfall. It may be said that wherever this is adequate the only crop grown is rice. In Lower Burma nine-tenths, and in Upper Burma about one-third, of the cultivated area is cropped with rice. The smaller proportion in Upper Burma is, of course, due to the more precarious rainfall, and while, in Lower Burma, there is practically but one crop, grown on what has become an industrial basis, in Upper Burma we have the mixed farm growing cotton, ground-nuts, sessamum, pulses and millets. The sterner conditions of life in Upper Burma tend to produce a hardiness of character which is not so marked in Lower Burma, where conditions are so much easier. Mr. Furnivall's book gives a very clear description of the various conditions which affect this vast agricultural population. He details the methods of cultivation of the various crops, and comments on failures --in Upper Burma generally due to a deficiency and in Lower Burma to an excess of rain. From this he passes to an interesting description of rural economy under Burmese rule, where apparently the population was "regimented" on a semi-military basis, everyone belonging or being supposed to belong either by birth or marriage to a definite regiment or order, somewhat on the lines of the feudal system of mediæval Europe. In Lower Burma this regimentation was apparently according to class, *e.g.* fishermen, brokers and the field cultivators all had their own headmen. When the British arrived they introduced the village system, by which the village is the lowest administrative unit. In a country where there are over 35,000 villages and only some 80 towns, and where practically everyone is engaged in agriculture, one would

imagine that the village would be the best unit on which to build an administrative structure. Mr. Furnivall, however, seems to consider that the regiment system was the better, and sees in this introduction of order by the British Government a menace to the survival of national tradition. We have already indicated above by extracts from his book how matters were tending before the British occupation.

The opening of the Suez Canal in 1869 completely revolutionised the economic relations between East and West, and in Burma it had the almost immediate effect of industrialising the rice crop of Lower Burma and, to an extent, part of the agriculture of Upper Burma. In Lower Burma prior to the opening up of markets the land was originally under a system of peasant proprietorship, each cultivator just producing the surplus over his own requirements necessary to barter for the other commodities of life. With the advent of the British internal war ceased, peaceful conditions were established and security of tenure guaranteed. People migrated from the more precarious tracts of Upper Burma to Lower Burma, where they opened up the jungle lands. The opening of the Suez Canal gave an impetus to trade of all kinds and, in particular, stimulated the paddy trade, which now found a demand from outside. The price of paddy went up and the peasant proprietor found that he could not only supply his own wants, but could also sell his surplus paddy. As a result, the temptation to take in more land was too great to resist, and the stage was finally reached where the cultivator had much more land than he himself could manage. The transition to the stage of landlord, non-resident on the land, who simply owned the land but did not work it, was rapid. These non-resident landlords exchanged the discomforts of the small villages for the amenities of the nearest town, rented the land out to their tenants and simply drew the rents. The present position is that in Lower Burma we have a large number of non-resident landlords living in the towns; the tenants of these landlords, more or less migratory, cultivating here one year and there the next, and at the bottom a completely landless class of labourers. Another aspect of the industrialisation of the rice crop of Lower Burma is due to the fact that as the crop is grown under uniform conditions, the same kind of labour is wanted at very much the same time. There are three main processes: (1) the ploughing of the land; (2) the transplanting of the seedlings, and (3) the reaping and winnowing of the crop, all of which can be performed largely by unskilled labour. There is thus a large demand for

unskilled labour at recurring intervals and, owing to Indian immigration, there is always a large supply of this labour available just at the time when it is most wanted. As Mr. Furnivall points out, the result has been that the division of labour has proceeded as far as is possible in agriculture and resembles the division of labour found in industrial organisation. Mr. Furnivall discusses fully the position of landowners, cultivators and labourers both in Lower and Upper Burma, and deals very fairly with the problem of Indian immigration, without which it is doubtful whether the Delta could have been opened up as it has been. But this has had its disadvantages and has opened up many social and economic problems.

In his chapter on Capital and Debt Mr. Furnivall very clearly indicates how the vast amount of agricultural debt in Lower Burma has been piled up. The urge to take up more and yet more land which tempted early settlers in the Delta naturally involved more and more capital, and the chettiars of Madras, a great banking caste, were quick to seize the opportunity, while Burman money-lenders were also prepared to accommodate. As in all countries, easy money is to some men a boon and to others a curse, and the experience of Burma has in no wise been different from that in other newly-opened-up countries. Government's contribution to the solution of the problem has been the Land Improvements Loans Act of 1883 and the Agricultural Loans Act of 1884, followed by the co-operative movement. It is to be feared, however, that with all these advantages the much-abused chettiar still holds the field. His methods at least have the advantage that they are strictly businesslike and that the last thing he really wants is the land.

In his concluding chapters Mr. Furnivall is rather inclined to allow his enthusiasm for Nationalism to obscure his economics, and there seems a hankering after a Burma self-contained and untouched by world progress and influences. Were it possible in modern conditions for a country to stand alone and in isolation, then surely none is better qualified for the experiment than Burma. It has a small population and unlimited resources; it is practically self-contained; it has vast uncultivated areas and ample supplies of food-stuffs, of timber, of oil and of minerals. Detached from all outside influence the conditions of life would be ideal. But such isolated Utopias are, unfortunately, now impossible and Burma has not been slow to adapt herself to some of the changed conditions of modern civilisation. It is unfortunate that Mr. Furnivall shuts his eyes to what his own

fellow-countrymen have already done in the development of the country—a development which has been as much to the interest and advantage of Burmans as of themselves. According to him, the main obstacles to the development of Nationalism have been the educational system and the British business man : he makes no mention of any inherent defects in the Burman. Some of these defects may really be counted amongst his virtues, *e.g.* the tendency to spend vast sums on pagodas and other works of merit—meritorious but unproductive—and a general disinclination to hoard money. These customs, excellent though they are, materially limit one factor which goes to the production of wealth, namely, Capital; and those who have lived long in Burma can gauge the limitation which the Burman character brings to the other factor—Labour.

Let us hear the conclusion of the whole matter : "The chief opposition to the rebuilding of civilisation in Burma may be looked for in the attempt of European men of business to safeguard their supposed interests. If, as is but too probable, the obstacles prove insurmountable, the end of British influence in Burma can be only a matter of time and, after a period of anarchy, more or less prolonged, our descendants may find Burma a Province of China. China has a great civilisation, and it is quite possible that the absorption of Burma by the Chinese will be the best destiny for Burmans. Then the European visitor, looking at Burman lads playing Burmese and Association football, will probably reflect that at least one valuable element of Burmese civilisation outlasted British rule and that there is one good thing we gave them. But this will be an inglorious, if not unfitting, memorial of British rule in Burma." To which forecasts of their future Burmese and Europeans alike may exclaim : "Save us from our friends."

J. MACKENNA

Statistical Contributions to Canadian Economic History, with an Introduction by W. A. MACKINTOSH. Vol. I, Statistics of Banking, by C. A. CURTIS; Vol. II, Statistics of Foreign Trade, by K. W. TAYLOR; Statistics of Prices, by H. MICHELL. Pp. xii + 93 : 93, with charts. (Macmillan Company of Canada. 1931. $10·00 (Canadian.))

OF these excellently printed studies, Vol. I is confined to Banking. The exposition here is formal; it is concerned not with changes of bank policy or controversial topics, but with the difficulties which had to be overcome in obtaining continuous and

consistent series; and it explains clearly what each table means. For so young a country the fullness of her Banking statistics is hardly less remarkable than the stability of her banking institutions. The charts, pp. 71 *et seq.*, suffer from being all in one colour; for the lighter lines cannot be distinguished where they overlap.

Vol. II provides more interesting fare for the general economic historian. It opens with an admirable exposition by Mr. Taylor of the Canadian Balance of Trade. He writes (almost with his tongue in his cheek, for he lives now in Hamilton, Ont.): "A favourable balance of trade . . . is popularly regarded as a sign of prosperity. . . . The figures . . . show that just the opposite is true. . . . Years of active business and rapid expansion have almost invariably been marked by growingly unfavourable trade balances, and dull years or years of depression by increasingly favourable balances" (p. 3). "The explanation of this paradox lies in 'capital imports.' . . . Expansion means construction, construction means foreign borrowings, and foreign borrowings mean heavy import of capital goods, raw materials, and the necessities and decencies of life for the thousands of men engaged in capital construction work" (p. 4).

Mr. H. Michell, to whose pioneer work Canada has long owed a debt of gratitude, follows with a bold sketch of price history from 1848. He disproves (if disproof were needed) the foolish remark of Werner Sombart (*Economic History Review*, II. No. 1, p. 5, 1929), that "there is no such thing as a history of prices." Sombart's turgidities would be less tiresome if he worked sometimes on these lines. Mr. Michell's method is to quote from standard authorities—Shortt, Skelton, Rayton— and reveal the accord between the historians and his figures. They are specially illuminating for the Crimean War. But p. 51 repeats a sentence which I for one have never been able to accept: "Canada was not alone in feeling the strain of the 'eighties and 'nineties. It was a world-wide epoch of trial and in many instances of cruel disappointment and loss." For Canada perhaps, but surely not for the England of the Jubilee and Diamond Jubilee, those festivals of complacent stock-taking in 1887 and 1897 respectively. And Marshall, I think, would have agreed with me. He was always at pains to point out the non-monetary causes of the price fall of the 1880's (Mr. Michell, indeed, quotes these at length, p. 52); and it is clear from his evidence before the Gold and Silver Commission that he viewed with considerable confidence the economics of a falling price level, having regard especially to its beneficial reaction on real income and wages.

It would help the reader if marginal references were given here and there. Thus on p. 51, in the matter of Rockefeller and petroleum prices, is it to the table on p. 83, Coal Oil, Prime White American, that we should turn ? I see no petroleum table.

Mr. Hurd and Mr. Brooks conclude an excellent volume with a study of certain individual wholesale prices, 1868–1913. It is pleasing, also, to note that both Mr. Taylor and Mr. Michell acknowledge with gratitude the assistance they have received from the enlightened statistics of the Dominion Bureau of Statistics under Mr. R. H. Coats. If this kind of liaison could be extended to the Empire, we should soon have a uniform body of Imperial Statistics. I am no statistician, and Mr. G. Udny Yule is so kind as to add in brackets a note on the statistical technique.

There is not much comment to be made from the standpoint of statistical method, and that only on the matter of Vol. II. In the statistics of foreign trade, a measure of " volume " is obtained, in the familiar way, by revaluing all items at the values of 1900. Where quantities are not given in the returns, prices are assumed to have moved in harmony with the prices of the most closely related commodities for which quantities are given. In the case of index-numbers of prices, the geometric mean is used, it being held superior to the arithmetic mean " where no feasible method for weighting the various commodities is possible." It may be remembered, however, that the Board of Trade index-number of wholesale prices is based on a weighted geometric mean, and the choice of the geometric mean would seem to be justified rather on the grounds of (1) the facility it offers for dropping old and inserting new commodities, calculating ratios by the chain method from year to year, (2) its freedom from any effect of choice of base-year. A chart is given (p. 88) showing index-numbers based on both the arithmetic and geometric means, and the divergence in early years seems to be considerable : there is a slip in the title, the lower curve being that for the geometric mean. The volume concludes with an interesting study of the cyclical movements of individual commodity-prices, 1868–1913. Methods used here are quite elementary, but bring out interesting points in the sequence of revival and recession for different commodities, and in their relative variabilities.

C. R. Fay

A Modern Economic History of South Africa. By D. M. GOODFELLOW. (Routledge. Pp. 267. 10*s.* 6*d.*)

THE theme of this book is somewhat narrower than its title would appear to indicate; it is essentially a study of the effects of gold-mining on the economic structure of South Africa. Beginning with a survey of South African conditions as they existed before the opening-up of the Rand—still mainly primitive and pastoral, with industry and even agriculture only developed to a slight degree in exceptionally favourable localities, and only beginning to be disturbed by the diamonds of Kimberley—Mr. Goodfellow proceeds, in the main part of his book, to examine the development of this economy between the years 1890 and 1910, under the pressure of a highly profitable industry established in its midst. He concludes with two essays on particular aspects of economic history since Union—one on Native Labour and one on Land Settlement—but the main body of his narrative stops in 1910.

South African economic history, during this critical period, is not only of considerable interest in itself, but is a typical case of a general process which has gone on whenever some highly capitalistic industry (generally mineral) has been established in an undeveloped country. Some of the features of the process were more or less inevitable. Such are the import of capital, the influx of skilled labour, the growth of subsidiary industries (including transport), the gradual development of existing industries to serve the needs of the new market and to take advantage of the new equipment constructed for other purposes, but now available for them. It is probably inevitable that these latter movements should be slow, since it takes time to shake the old industries out of the rut of custom. (Mr. Goodfellow points out that Transvaal agriculture showed little development until the turn of the century.) This being the case, it is probably also inevitable that Governments, representing the interests of the old inhabitants, should desire to hurry up the development of " their " industries, and to retain within the country as much as possible of the gain accruing from the overseas investment.

That this has generally been the policy of South African governments (whether avowed or not) is obvious; much of Mr. Goodfellow's book is taken up with an examination of it, although, unfortunately, he does not enable the reader to get a view of the policy as a whole. One side of it (perhaps the most important)—that of railway development—he does discuss in

some detail, and this forms one of the most interesting sections of his book. The story of Cape Colony's railway building, the three main lines built on the strength of diamonds, and extended for gold, only to meet the threat of devastating competition from Durban and Delagoa Bay, is not only of immense importance for South Africa's political history, but is also a highly instructive "case" in railway economics. From one point of view, it may be used to point the dangers of political influence in State railway construction; this is the reflection most immediately suggested by the way Mr. Goodfellow marshals his facts. Clearly the Cape did not prove able to afford to build and manage railways in the way she did; in the years before Union her finances were becoming more and more alarming, largely for this reason; finally, she was forced into Union on unfavourable terms to avoid financial collapse. But from another angle, "extravagant" railway building might be justified as a convenient means of intercepting mining profits for the benefit of South Africans; the competition of the coastal provinces would have deprived them of any opportunity of sharing in these gains (and since they had drawn on their anticipations, would have driven them into bankruptcy). "The Dominant North" could draw its rent in any case; and it could make the other provinces pay for a share in the spoil.

On the relation of gold-mining to the other chief characteristic of South African economics, Native Labour, Mr. Goodfellow has much of interest to say. His chapters on the recruitment of natives for the mines are probably the best thing that has been written on this important subject. He shows how the system of recruiting labour by corporations, run by all the mines in collaboration, grew up because of the evils of misrepresentation and indebtedness to traders which a competitive system engendered. He admits that the joint system of recruitment has not altogether removed such abuses. But he does not make it as clear as is desirable that the joint system is one of monopoly, so that the native mine-worker is exploited, in the strict economic sense of the term. (This is made very clear by the reluctance of the mines to raise wages, because they are afraid that the supply of labour-time would fall off.) And the evil of exploitation is greater, not less, because the wages of mine-workers compare favourably with the wages paid to natives in other employments.

On these matters, and also on the general problems of agriculture, which occupy a large portion of the book, Mr. Goodfellow has done valuable and original work. He realises clearly that "South Africa is one of the most difficult pieces of land which

white people have ever attempted to settle"; and this is undoubtedly the first requisite of sanity in dealing with South African economics. But it must be confessed that the general impression left by the book is somewhat unsatisfactory. Partly this is due to haphazard arrangement; the reader is jumped from one thing to another without any thread, logical or other, appearing to connect one section with its predecessor. But partly it is due to the somewhat arbitrary selection of subjects. Mr. Goodfellow's excuses for not giving a more serious account of mineral development itself, and of the development of foreign trade in the central period, seem altogether insufficient. And why do we get nothing about European labour, about trade unionism, or about native labour in other than the two main employments? With these deficiencies, one can only conclude that while anyone who comes to write an economic history of South Africa will have to use this book, Mr. Goodfellow has not done the job.

J. R. Hicks

The Mines of Mendip. By J. W. Gough, M.A., Lecturer in History at the University of Bristol. (Clarendon Press. 1930. 15*s*. net.)

In recent years research has been busy on the subject of early mining in this country, and already the evidence which has been accumulated makes it clear that long before the Industrial Revolution, the contribution of the mining industry to economic progress was in its total very considerable. The present work on the Mendips records the result of investigation into a district which was for many centuries one of the important industrial areas of Britain, for the Mendips, with the Derbyshire hills and the Welsh mountains, provided between them the greater part of the lead supply of the country. In estimating the importance of the industry, we must not forget that until comparatively recent times, lead was one of the most widely-used of the metals. Its non-corrosive properties were appreciated by the Romans. It played an important part in mediaeval economy. Not until the seventeenth century, however, with the improved methods of mining and the great developments in building, did the output of the British lead-mines reach its maximum. By the close of that century, the more accessible lodes in the Mendips were exhausted and deeper working had become necessary. Difficulties of drainage increased, output declined, and by the nineteenth century the workings failed to

compete with the world supplies of lead ore which were becoming available.

It is somewhat surprising that we have had to wait until the present for the full story of the rise and decay of this important area. True, particular phases of the subject have been treated in scattered papers, but this is the first time that the information has been brought together and a systematic and exhaustive search made of the available records. The author knows his district well and is familiar with the local terms in use. Interesting sidelights are thrown on methods of working, and these for the most part appear to have been the same in the Mendips as elsewhere, though Mr. Gough makes little attempt to compare the conditions with those obtaining in other districts. He has consulted the record-sources very fully, but certain classes of the mediæval documents included in the bibliography could hardly be expected to yield much information on an industry carried on under local ownership.

The legal aspect of the study naturally occupies an important section of the work, for no history of the early days of mining would be complete without some reference to the mining laws, such as those which protected the free mining communities of the Forest of Dean or of the Stannaries of Cornwall. Before the close of the Middle Ages a code of mining custom was in existence in the Mendips, and it is probable, as the author suggests, that these rules, prescriptive in origin, dated back to earlier times, possibly to the early Middle Ages when the Mendip region was royal forest. With the grant of certain lordships in the area, however, to four Lords Royal, the legal position of the lead-miners suffered and, except on the open wastes, they were deprived of certain of their privileges. The lead mines now come to be exploited on ordinary manorial lines and through manorial officers, a fact which to some extent explains why the information for the mediæval period is somewhat disappointing.

It would be difficult within brief scope to give an adequate idea of the contents of this interesting volume. Needless to say, the work has a value far beyond the bounds of the Mendips. It is a useful contribution to the literature of economic history and is invaluable for the study of early mining.

WILLIAM REES

University College,
Cardiff.

The Japanese Population Problem. By W. R. CROCKER. (London: Allen and Unwin. 1931. Pp. 240. 10*s*. 6*d*.)

DURING the last decade the Japanese have become acutely conscious that they have a population problem, and there is a widespread belief that it is the source of the most serious difficulties in which their country is involved. The problem, expressed briefly, is whether the Japanese can maintain or improve their standard of life in face of the great increase in their numbers which is likely to take place in the next quarter of a century, and this leads to the further question of under what conditions a solution may be achieved. Mr. Crocker's work is based on personal inquiries in Japan as well as on printed sources; but, though the author has made a useful contribution to some aspects of his subject, yet, judged as a whole, his book is far from being the comprehensive study for which one has waited. A serious defect in the work arises from the fact that, while the author's thesis might have been exhausted in a pamphlet or a substantial article, he has felt himself under the obligation of producing a book of conventional size. Consequently, it is full of repetitions and of obvious "padding" which have obscured its very real merits. For example, the first quarter of the book consists of trite reflections on international politics in the Pacific area and on Japanese civilisation in general; while a chapter on Industrialism in Japan is prefaced by ten pages of irrelevant remarks on the future of international trade. In a word, the book contains a combination of sound analysis and of intolerable prolixity.

One of the best parts of his work is that in which the author examines the statistics of population and estimates future probabilities. He is not misled by crude "rates of increase," but he concentrates on the absolute annual additions to numbers which are to be expected. He shows that while the high fecundity of the Japanese marriage is falling, through a retardation of the age of marriage and through contraception, numbers are likely to grow rapidly in the next two decades because of the age-composition of the population. Mr. Crocker mentions the effect on fecundity of the Japanese Family System and of Shinto, and he quotes the view that these influences are as powerful as those operating in Roman Catholic countries. The reviewer himself, when in Japan, agreed with this view; but the general opinion now appears to be that industrialism and Westernisation are rapidly destroying the traditional social ideas and habits which favoured large families. Mr. Crocker refers to the

restricted sphere of women in Japan; but he does not discuss the effect of their status on the birth-rate, nor the extent of the changes in that status which are beginning to take place.

The author then considers whether Japan will be able to produce the food required by the additional population. He argues that the real cost of producing the main food-stuff, rice, is already very great, and that its relatively high price of late years has failed to compensate the farmer for the increased effort needed to expand the output. Only the development of sericulture has enabled the peasant to bear this burden. The conclusion, with which most inquirers into the problem will agree, is that Japan will have to rely to an increasing extent on imports of food, and that she will be obliged to make great changes in her national diet. Mr. Crocker does not discuss, however, the important question of how far it will be possible to convert the large area of Japan (about five-sixths of the total) which is unsuitable for rice cultivation and is now forest-clad, into grazing land for live-stock, if a considerable demand for animal foods should grow up.

If Japan has to import more food-stuffs, she must obviously increase her exports, and a chapter is devoted to the probable terms on which she will be able to conduct this greater foreign trade. Here, of course, is the crux of the problem. Will Japan be able to exchange her own products for foreign food-stuffs and raw materials on terms which will enable the recent improvement in her standard of life to be maintained? Obviously, no conclusive answer is possible. Mr. Crocker notices some of the determining factors, and he is specially concerned with those dangers of a highly specialised export trade that have worried so many Japanese economists. He discusses, also, the difficulties which will accompany attempts to sell abroad more cotton goods and more raw silk which now comprise about two-thirds of the total exports, or to develop a more diversified trade, in order to obtain greater quantities of imported foods. It is probably true that international trade in the future is likely to be more unstable than in the past, and that a country with a highly specialised export trade is in a vulnerable position. But the reviewer suggests that the subject should be approached from a rather different angle and that some attention ought to be given to the fiscal protection from which the agriculturist now benefits. The problem may be stated in this way. The abolition of import duties on food-stuffs, accompanied by a change in diet, should permit a reduction in the cost of living of the urban population and so an expansion in the exports of manufactured goods. But

should Japan pursue this policy, especially if it is accompanied by the reorganisation of Japanese agriculture on modern lines that Mr. Crocker advocates, she will tend to destroy her peasantry. This class provides the tedious manual labour required for the production of raw silk which forms 40 per cent. of Japan's exports. Thus, a policy of free food imports, which the increasing population would seem to need, will necessitate a very rapid growth indeed in the foreign markets for manufactured goods, since such a policy will strike at the basis of the largest branch of the present export trade. A redistribution of Japan's economic activities on an enormous scale, therefore, appears to be imminent, and the social and cultural consequences of this change are likely to be very serious. Western nations must certainly expect to be faced with increasingly severe competition from Japan in the world's markets.

Mr. Crocker deals admirably with the possibility of emigration affording relief. He makes the point that under conditions in which a fall in fecundity, *i.e.* in the corrected birth-rate, is accompanied by a rise in the rate of increase, emigration may be a partial solution for over-population, and he advocates the admission of Japanese into the under-populated areas of the Pacific.

The book would have been more satisfactory had the author employed a less pretentious and diffuse style. Interrogations abound. There seems no good reason for a sentence of twenty-seven lines in length on pp. 186–7. Phrases like " the smooth, slinking, tigerish motion of the Foreign Offices " mar a book which has just claims to being a contribution to scholarship. On p. 219 the author writes : " Estimates of the population—they can hardly be called censi. . . ." No, indeed !

G. C. Allen

University College,
Hull.

French Mercantilist Doctrine before Colbert. By Charles Woolsey Cole, Ph.D. (New York : Richard R. Smith, Inc., 1931. Pp. xiv + 243. $2·50.)

Dr. Woolsey has produced an interesting little book and has chosen an opportune moment for its publication. Many of the arguments and recommendations of the patriots whom he quotes have a familiar and modern ring. " Keep out foreign goods, utilise your own resources, increase your export trade "

is as much the popular cry in every country to-day as it was in France at the close of the sixteenth century.

It can probably be shown, the author hazards, that the mercantilist attitude of mind is the normal one for human societies, and he finds traces of mercantilist flavour in the regulations of Ptolemaic Egypt. The most usual approach to the subject is through the study of Colbert, yet Colbert built on ground prepared by Richelieu, who, in his turn, found a whole body of doctrine ready to his hand. The first chapter of the book deals with "Mercantilism in scattered concepts 1453–1589," and quotes a number of passages from the *Cahiers* of the Estates General and other contemporary writings. The burden of these is always the same: the writers deplore the extreme luxury of the rich and the existence of an increasing class of idle and vicious poor. The two phenomena are closely related, since expenditure on foreign luxuries drains money from the country, and the consequent impoverishment produces unemployment.

After the middle of the sixteenth century, we are told, the value of a large supply of bullion was an almost axiomatic basis of argument in France. Bodin, who is credited with laying the foundation of the quantity theory of money, could not, of course, be a whole-hearted bullionist. He does, however, deprecate luxury; he argues for increased home production, and would protect the home market by import duties on manufactured articles and export taxes on staples, but he is anxious to encourage trade as a means of increasing international good-will. Professor Cole gives a sympathetic account of Laffemas, tailor and *valet de chambre* to Henry of Navarre, and subsequently *Contrôleur Général du Commerce*, who is best known for his efforts to introduce the establishment of the silk industry in France; of Montchrétien, unstable and erratic, but intensely patriotic and a good mercantilist; and in less detail of de Bertigny, Gentillet, Scipion de Gramont, Cruce and Sully, with extracts from all their works. The entire volume gives a clear picture of the prevailing attitude of the economists, who appear to differ from each other only in being more or less bullionist, and in the degree of suspicion and dislike of the foreigner that is admixed with their loyalty to France. There is more than a family resemblance in their arguments, and though the extracts are picturesque and telling they are rather many and rather long. The book is, however, good reading, and affords an interesting approach to the study of later French mercantilism.

H. REYNARD

Politics and the Younger Generation. By A. L. ROUSE. (London: Faber and Faber.)

THIS is an exhilarating book. It exhibits in a clear and comprehensive way the attitude to social policy of that part of the younger generation which has found its way, in the post-war years, into the Labour Party. Its importance lies, as I think Mr. Rouse himself would agree, less in the actual details of its underlying argument than in its total impression. It is the work of a lively and generous mind with a real power of seeing the wood as well as the trees. In a real sense, it may be regarded as a significant manifesto of the younger Labour "intellectuals."

Broadly, I think, Mr. Rouse may be called a Marxian socialist who interprets the transformation we are witnessing in terms of a recognition that the decay of capitalist civilisation demands its deliberate reconstruction while there is yet time. He is dissatisfied with a society divided into economic classes. He rejects the order of emphasis we place upon the incentives to production. He dislikes the way in which the Churches stand in the way of a healthy secularism. Social Democracy for him means economic equality as the condition upon which alone a spiritually adequate society is attainable. He sees that the ideal of free competition is unsatisfactory because it deprives the masses of security; and he insists that without security the name of freedom is as high-sounding as it is empty. He is an eager internationalist to whom the lesson of the war is the need to reorganise our political institutions in terms more suited to the realities they endeavour to express.

Perhaps the best clue to Mr. Rouse's approach is to be found in one characteristic sentence. "I do not believe," he writes, "that a man who has no comprehension of the Marxist standpoint as regards politics and economics, understands the realities of modern society." That is a hard saying for English economists who have been content to exhibit the patent flaws in the Marxian theory of value as dispensing them from the need to grasp the general philosophy in which it is a very small and unnecessary part. Mr. Rouse sees clearly that the social philosopher who neglects the economic interpretation of the phenomena about him will miss the central clue. The whole complex of our social relations is determined by the way in which we earn our living. Capitalism is a way in which the means of production are owned by a few, and their power to make profit by that ownership determines the essential social relations. For Mr. Rouse, the result is patently inadequate. It limits the attainment of good

to a small number in society. It places the value-determining institutions in their hands; and what is achieved ministers to the very partial conception of good with which they are prepared to be satisfied.

Mr. Rouse would, I think, agree that his analysis is more powerful on the negative than on the positive side. He is able, always with point and clarity, to put his finger on the things that are wrong; he becomes more general, and less satisfactory, in his effort to show how they may be put right. His broad approach is clear enough; he wants a society built upon function instead of power. But while he sees its desirability, he is better in his effort to demonstrate that it is desirable than in showing precisely how we may attain it. He has plenty of admirable reforms to recommend; what he does not (for one reader at least) really show us is how they can be made to seem admirable to those in whose effective dispossession they are to result.

In a word, I find it difficult to believe that Mr. Rouse has met the really formidable dilemma with which his own Marxian interpretation presents us. The present society, he says in effect, is an unjust society because its relations are merely a reflection of class-power. We need a classless society from which the virus of power is removed. We can get it if those who now govern in their own interest have a change of heart and take wider views; or it might come (though this would be less satisfactory) in the aftermath of revolution. His picture of the philosophy which would become dominant with that change of heart would, I am sure, appeal to many generous minds. My difficulty is the absence of any way of making the change of heart effective. Mr. Rouse obviously has great faith in the results of a better educational system, and in the removal of those religious prejudices which deflect so many minds from this world to the next. But I think he wholly under-estimates the tenacity with which the governing class clings to the convictions he deprecates. They hold them, not in malice, but in the genuine belief that they are the condition of social good for others not less than for themselves. Mr. Rouse has an almost eighteenth-century faith in the power of reason to change them. He under-estimates, I suggest, the degree to which men who live differently think differently.

All this does not alter the fact that no one can read his book without being impressed by it. Mr. Rouse has read widely, he is full of ideas, and he has a coherent and well-knit point of view. His next book may well be an event in social philosophy.

H. J. Laski

Social Politics and Modern Democracies. By CHARLES W. PIPKIN. D.Phil. (New York: The Macmillan Co., 1931. Vol. I. England. Pp. xxxiv + 337. Vol. II. France. Pp. 411.)

THE main theme of these two volumes is the development of social legislation and administration in England and France since 1900.

Volume I devotes a preliminary chapter to the background of the English social movement, and then proceeds to an historical survey of our social legislation. Factory Acts, Education Acts, Housing and Town Planning Acts and Social Insurance are successively reviewed, with a special chapter on the Budget of 1909 and the Constitutional crisis. Professor Pipkin then passes to a discussion of the growth of Trade Unionism, the political and industrial alliance of the British Labour Movement and the growth of the power and influence of the Labour Party. The student of economics in this country will find nothing new in this account, but considerable interest in the presentation of very carefully collected material by a writer who has not lived through what he describes, but who brings to his work the advantages of impartiality and freshness of mind.

It is hardly to be expected, where the ground covered is so wide, that every portion of the work should be of equal merit. Thus the account of Employers' Liability and Workmen's Compensation is somewhat scanty, nor is it correct to state that the law requires every employer to insure his workmen against the risks of their employment. The statement, in another connection, that in 1909 the policies against death taken out by the working classes numbered 42,000,000, is on the face of it improbable. The detailed survey of the Trade Union movement begins somewhat abruptly in 1899, and neither the account of the Taff Vale case nor that of the Osborne judgment is very informing. The author relies too much, as is perhaps inevitable, on Parliamentary and other official records. But legislation, as we know, sometimes produces results surprisingly different from those at which it aimed, and the most patient study of Hansard, and even of a formidable list of authorities such as are quoted in the Bibliography at the end of the volume, does not necessarily enable a writer either to capture the atmosphere in which the events occurred or to estimate their consequences.

This difficulty is accentuated in the description of France, where the account of social legislation, and more especially of the complicated machinery of advisory and consultative organ-

isations, is somewhat confusing. It frequently happens that terms are used and institutions are quoted in earlier portions of the work, although they are not adequately defined or explained until later. The *Conseils de Prud'hommes*, for instance, are repeatedly mentioned, but it is not until p. 117 at the end of Chapter IV that they are described, and their method of working expounded. It is assumed throughout that the reader is familiar with the *Syndicats*, and while many pages are devoted to legislation concerning them, to projects introduced, rejected, re-introduced, consummated or abandoned, no very clear account is given of their aims or constitution, so that the reader might easily be left in doubt almost until the end as to whether the *Confédération Générale du Travail* was a Trade Union in the British sense or an instrument for red revolution. Chapter XI, entitled the "Industrial Labour Movement" does, however, after a rather discouraging opening sentence to the effect that "French Socialism is hopelessly confused," give a clear and convincing account of the aims of the movement and its recent history.

Throughout both volumes Professor Pipkin discusses each division of the subject—Social Legislation, Consultative Institutions, Organisation of Labour, Social Insurance, etc.—as an independent whole, telling the tale of each from the date chosen as starting-point to the present day. This method necessarily involves some repetition and a little overlapping, but on the whole co-ordination has been effected with considerable success.

The final chapter, entitled "A General Survey of the Period," sums up the position and draws an interesting comparison between Great Britain and France. The French are at the same time strongly individualist, severely logical and politically unstable. The individualism of their employing class inspires a revolutionary spirit in the worker; the national love of logic makes them drive every idea to its logical conclusion, and the result is one long story of doctrinaire discussion. The British combine political stability with an aptitude for learning by experience, and a willingness to gain by compromise. "The British Labour Party has made very few stands and thus has made few retreats." So in England Labour has arrived at power, while in France they argue whether they shall help to "form a government or whether they shall vote for or against their political enemies or their temporary political friends."

But the differences between the French and the British socialist are "nothing less than the great psychological and

temperamental differences which separate the Frenchman and the Englishman." Each country, however, plays its part in the cause of freedom, and the world, in Professor Pipkin's view, would be infinitely poorer without their character and traditions. And this we conclude must be the reason why the book was written.

H. REYNARD

Gladstone as Financier and Economist. By FRANCIS W. HIRST. With an Introduction by HENRY NEVILLE GLADSTONE. 1931. (London: Ernest Benn. Pp. xxiv + 327. 15*s.*)

THE scope of Mr. Hirst's work will be understood by a comparison with that of Sydney Buxton in the same field. Like his, it is the testimony of an admiring disciple who in part was contemporary; and in fullness it comes midway between *Finance and Politics* and *Mr. Gladstone: a Memoir.* Whereas in Buxton the central theme is the triumph of Free Trade, with emphasis on the finality of the triumph, in Mr. Hirst it is passion for economy and the persistent achievement of it, in the face of growing difficulties, by one whose mind was both liberal and severe. Gladstone had no pinchbeck in him. He did not wait for a May Report to compel him to economies. "With a few first-rate officials at the Treasury, trained under his eye and inspired by his voice" (p. 242), he proposed them and eulogised them and carried them as triumphs of a democracy in charge of itself. Mr. Hirst has seen the thesis by Mr. Francis Hyde, which examines Gladstone's contribution to railway regulation, and we share the hope that it will soon be published (p. 87). He also commends Dr. Paul Knaplund's (misprinted Knapland, p. 105 n.) *Gladstone and Britain's Imperial Policy* (1926), which proves fully that Gladstone, as he matured, passed in his colonial views from a narrow classicism to a large sympathy with, and understanding of, the tradition of Lord Durham and the ideal of a Commonwealth of Free Nations. It would seem, indeed, that we owe the Empire to the Liberals, as surely as we owe Free Trade to the Tories from Pitt to Peel and the youthful Gladstone himself.

Some of Mr. Hirst's comments, indeed, are tinged with latter-day bias. Thus, Gladstone at the Board of Trade 1842–3 "was responsible not to a democracy but to an aristocracy which kept cattle and a shopocracy which sold meat" (p. 71). He was responsible rather to a country of merchants and manufacturers whose eventual triumph had been determined by Huskisson in the 1820's and the enfranchisement of the industrial North in

1832. Again, had Mr. Gladstone been alive in the days of the automobile, he would have furnished securities "against the enormous waste of taxpayers' and ratepayers' money and the costly diversion of heavy goods traffic from railways which our recent Governments have so conspicuously failed to give us" (p. 91). And of course there is a rap for the advocates of a revenue tariff in 1931. But what Mr. Hirst does bring out is the admirable service which Gladstone rendered to Peel in his tariff revisions—service which was new to him and which he did not seek, for he had accepted Peel's offer of the Board of Trade with reluctance. But the Scottish ancestry in him and his sense of duty, fortunately for Peel, prevailed. On p. 100 under 1844 and p. 207 under 1845 Mr. Hirst quotes the testimony of Cobden and Macaulay to the deterioration in the state of the countryside (its people, not its crops) in the first half of the nineteenth century. The persistent evidence of great contemporaries, from Cobbett to Cobden, on this point is not to be overthrown by a curve from Silberling, as is the fashion in some quarters to-day.

Mr. Henry Neville Gladstone adds a chapter of personal recollections, in which we see Gladstone putting his sons on an allowance with the scrupulous enjoyment with which he fixed the vote of a Government department. He was exacting and yet not mean, both in public and private life. But are we to endorse the application of the couplet

> "Still as you rise, the State, exalted too,
> Feels no disorder when 'tis changed by you,"

which Mr. Hirst quotes in order that he may add, "How aptly the couplet describes the extraordinary quality by which Gladstone, even more than Peel, was able to effect legal revolutions in the most conservative country in the world!" (p. 51 n.)? In Home Rule, no: in stamp duties, yes.

C. R. FAY

NOTES AND MEMORANDA

SAVING AND USURY: A SYMPOSIUM

I. Saving on and Saving up: the Ambiguity of "Saving"

The note in the last number of the Journal in which Mr. H. Somerville hails Mr. Keynes as a convert to the doctrine of the mediæval Church about usury suggests that it is high time to try to distinguish clearly between some of the meanings which "saving" bears in ordinary English.

Common words like "post" often have several dozen different meanings without giving any trouble, because the context always shows in which meaning they are to be understood. The most rabid of the illiterate sticklers for "accuracy of definition" have never said that "post" should be given one single meaning "which should be rigidly adhered to." Confusion only arises when a word with several meanings occurs in a context which happens not to be decisive, and this is often the misfortune of "save" and "saving."

So long as the words appear in conjunction with "on" and "up," confusion is almost impossible. Everyone can see that to save "on" a thing is not the same as to save it "up." You save *on* tobacco by not smoking as much as you did, or not as much as that fellow Brown, who is always smoking the best cigars. You save *up* old newspapers and packing-cases in the hope that they may be saleable or useful at some future time. So to save *on* a thing means going without some of it, while to save a thing *up* means retaining it when you have got it. Money estimates are possible both of what is saved on something and of what is saved up in some form or other. You may have saved £2 on tobacco and saved up 2*s*. worth of waste-paper since January 1, but the £2 and the 2*s*. are evidently on quite different planes. You have the 2*s*. worth of paper in your lumber room, but you have not got £2 worth of tobacco anywhere, and there is no evidence that you have £2—you may have saved on tobacco merely to spend more on beer or to meet a reduction of income or an increase of taxes.

Unfortunately, however, we often use the words "save" and "saving" without the distinguishing "on" and "up," and then

confusion is apt to creep in unless special care is taken to avoid it. Instead of saying, "This year I've saved £2 on tobacco," understanding "compared with last year," or "compared with Brown," you may say, "This year I've saved £2 by not smoking in the train," and instead of saying, "I have saved up a hundred pounds," you may say, "I have saved a hundred pounds." You may say similarly that the "saving" which you have made this year by smoking less is £2, and that you are looking for an investment for the "savings" which you have made this year, and that they amount to £100. Thus to "save" a particular sum of money will in one context mean merely not spending that sum in a way which is indicated, and in another context it will mean accumulating that amount of money or money's worth by having a surplus of income over consumption.[1] The term may be used in the two different senses almost in the same breath. We may say, "I am going to save £150 by reducing my subscriptions and my wife's dress allowance, but as my income is down by £300 and taxes up by £100, I shan't be able to save anything this year instead of £250, as I have been accustomed to."

Now when the nineteenth-century economists said that increase of capital (which Marshall called "growth of wealth") was the result of saving, they made it very obvious that they were thinking of saving in the second of the two senses which we have been discussing—the sense of accumulation, and not at all of saving in the other sense—that of merely not making certain expenditure. They never dreamt of suggesting anything so foolish as that capital would be increased by a reduction of expenditure or consumption even if that reduction were accompanied by an equal reduction of income or production.[2]

[1] I am not oblivious of the difficulties involved in the conceptions of income, consumption expenses, and the difference between them. I have discussed them at some length in *Wealth* (pp. 7–10, 18–22 and 122–67 in the edition of 1928).

[2] It is true that the nineteenth-century economists generally preferred to speak of consumption being less than production or income rather than of production or income being greater than consumption, but this was only because they thought (which is true of most individuals) that persons could reduce their consumption more easily than they could alter their incomes. But I do not think they were like the famous schoolboy who said pins had saved many lives by people not swallowing them. They did not attribute the increase of capital simply to non-consumption or refraining from expenditure, but to the excess of production or income over consumption. J. S. Mill is quite clear in the last paragraph of *Principles*, Book I, ch. v, § 4; in the course of his explanation he says, "To consume less than is produced is saving; and that is the process by which capital is increased; not necessarily by consuming less, absolutely." Nicholson approved this passage and said, "All that is meant is that if capital is to increase there must be an excess of production over consumption" (*Principles*, Vol. I, p. 100). So too Marshall, "Next, as to the sources of accumula-

Tightly wedged in between the conception of saving as merely refraining from expenditure and its conception as the accumulating of income-yielding things which results from income exceeding consumption, is an intermediate conception in which it appears to be the saving up or accumulation of money rather than the saving up or accumulation of other goods acquired in exchange for money. Roscher was so impressed by the supposed necessity of accumulating money as a preliminary to the accumulation of capital that, in default of money in very primitive conditions, he makes his fisherman who wants a boat store up a hundred fish to live on while building the boat, instead of taking the more obvious course of doing a little boat-building each day while continuing to get fresh fish daily, thus gradually adding the boat to his capital without having first to acquire a store of something else. Now it is perfectly true that under modern conditions there are many individuals who can say quite intelligibly that they "save up money" till they have accumulated enough to make it worth while to "invest the money," by which they mean acquiring with the money some income-yielding property, new or old. Beside these people, however, there are other individuals and companies who can and do improve and add to their property continuously without having to go through the form of collecting and then parting with an accumulation of money. The community as a whole is like an individual of the second class rather than an individual of the first class. The additions to its capital do not appear first in the form of additions to its total stock of money or anything else which has at intervals to be "invested in" or changed into the form of improvements of land, additions to buildings, and other constituents

---

tion. The power to save depends on an excess of income over necessary expenditure; and this is greatest among the wealthy" (*Principles*, 8th ed., p. 229). The wealthy save most because they have the largest incomes, not because they are the most abstemious.

Perhaps the text-book writers would have done better if they had explicitly warned their readers against supposing that they could arrive at the total savings of the community simply by adding together the savings of the savers. Negative amounts must be brought into the account. If A saves £100 and lends it to B, who "lives over his income" by £100, the net savings of A and B taken together are not £100 but nil. When certain persons save a hundred millions, ten or twenty millions of this may be negatived by the over-spendings or losses of others, so that the net saving is only ninety or eighty millions. This has usually been treated as too obvious for explicit mention, but I think it is often improperly neglected in statistical inquiries, with the effect of exaggerating the actual net savings of the people. The difficulties arising from individuals' savings going into national and local debts, some of which are balanced and others not balanced by national and local acquisitions of "real capital," have been more often discussed. Marshall (*op. cit.*, p. 230) draws attention to the "savings made in the form" of public property by "some well-to-do democracies."

of "real capital." The additions are from the first these improvements, buildings, and other things. The people who save up money and invest it, as well as the others, are, as a whole society, in just the same position as the primitive fisherman, except that, being many members of one body, instead of having to divide a single man's time between different kinds of labour they distribute their members between them. Some of them get fish and other things required for daily consumption and keep instruments in repair, while others produce additional boats, buildings and other things which are *themselves* the savings of the community, not things into which some previously accumulated savings have been converted.

The bearing of all this on the question whether interest should be approved or condemned is not difficult to see.

If saving is taken in the economists' sense of accumulation—excess of income over consumption—interest as a consequence of saving appears both natural and useful. Natural, because we should expect persons who could get this surplus to be able to get it in the form of something which they could either use profitably themselves or lend out for money to other people. Useful, because it is desirable that (within limits unnecessary to consider here) people should be encouraged by getting interest to accumulate such things and discouraged by loss of interest from reducing accumulation.

But if, on the other hand, saving is conceived as mere refraining from expenditure, interest as a consequence of saving becomes both mysterious and indefensible. Why should anyone be paid something per annum for "having abstained"? Abstinence is not necessarily a virtue, and, besides, there are many virtues which bring in no income. What can be the object of maintaining an arrangement which pays people £5 a year because they have refrained from spending £100? And so on.

If saving is conceived as saving up money, the case against interest as a consequence of saving is also black. Saving up money is "hoarding," always condemned even by economists, and (unless there is an over-supply of money being issued from the mines or elsewhere) it leads to a general fall of prices and all sorts of inconveniences such as we are now enduring owing to the hoarding propensities of American and French banks. And so on.

The answer is that interest is not, in fact, obtained in consequence of saving in either of these two senses. No one gets a penny of interest in consequence of merely refraining from expenditure; no one gets a penny of interest in consequence of

having merely saved up money. If your income is halved, you will probably refrain from expenditure far more vigorously than before, but you will not find interest rolling in as a consequence or " reward " of your abstinence. If you save up cash in the house or in a safe deposit vault, you will get no interest on it, and the Bank of France gets no interest on the tons of gold which it is holding.

The general drift of Mr. Somerville's second paragraph seems to indicate that his condemnation of interest is partly founded on a mistaken impression that it comes from saving in the sense of refraining from expenditure, but he also believes that it comes from saving up—accumulating—money. Here, as it is obvious that mere hoards of cash yield no interest, he betakes himself, like most economic wanderers in these days, to the banks, and deplores interest on bank deposits on the ground that it encourages " sterile saving of money " as against " desirable investment." But this is only a first-class mare's nest. If it is not on record it ought to be, that a lady hitherto unfamiliar with banks and their ways called at a bank and said to the Manager:

" I hear you keep people's money safe for them, and allow them a little interest on it besides. Here are twenty five-pound notes. I've got their numbers down on this card, as I want to look in sometimes and make sure you've still got them safe."

The Manager suppressed a smile and replied:

" I'm afraid, Madam, if we kept your notes idle, we should not be able to give you any interest, and should indeed be obliged to make a small charge for our services, just as a purser does on board ship when the passengers get him to keep their money for them. You must let us lend out your money, and then we shall be able to pass on to you some of what the borrower will pay for it, while we keep the rest to pay our expenses and yield a trifle to the bank shareholders. Of course you might lend your money direct to the borrower, but you might have a lot of trouble in finding him, and then he would not pay you back as much of it as you like to ask for at any moment, as we will. We can do it because we have so many customers on those terms that what they are paying in to us always just about covers what others of them are drawing out. We can lend out ninety per cent. of what has been entrusted to us without any fear of not being able to pay all that will be asked for on any particular day."

The lady agreed to the terms, and a few days later she heard accidentally that Mr. Jones, the builder, had just got a loan of ninety pounds from the bank. " So," she said, " my money's gone

into bricks and mortar. Well, well, I didn't know Mr. Jones wanted ninety pounds, and I don't think I'd have let him have it if I had known."

This surely is typical of what happens. The old orthodox view is right—that banks, far from paying interest on idle money and delaying its investment, facilitate and quicken the necessary transactions between passive savers and active producers. The fact that they pay interest (or in lieu thereof render services) to their customers certainly does not make interest "the villain of the piece."

Beside the banks there is a more potent engine for facilitating the investment of savings in the shape of the Stock Exchange. The majority of savers not actively in business recognise that they are incompetent judges of new investments, and therefore buy old ones, thus transferring their power of choosing to the sellers, who are more adventurous and on the whole more competent.

Rejection of a neo-canonist condemnation of usury does not, of course, involve any approval of a general ramp against buying goods and services such as prevails in England at the time I write (December 15, 1931). In a world in which people have become specialised in different trades and buy and sell products and services to each other, a general refusal to buy means a general incapacity to sell, and early starvation for all except the few who can scrape a subsistence for themselves direct from the ground. In an isolated community of only a few score persons the situation would be realised by all. If two of the members had locked a large portion of the stock of money in their safes and forgotten where they had put the keys, the rest would not say to one another, "We cannot afford to buy more than half of what we used to buy." Failing picklocks and substitutes for the lost money, they would say, "We shall get on all right if we take less money for our goods and services"—and, which is perhaps more, they would not be too kind to any obstinate members who said they wouldn't sell or work unless they were paid as much money as before.

EDWIN CANNAN

II. MR. KEYNES AND THE CANONISTS (i)

Since the publication of Mr. Keynes' *Treatise on Money*, monetary theories, which seemed to have settled and crystallised for some time, have again been thrown into the melting-pot. Partly owing to the new terminology adopted in the book, its

condensed statement, and its entirely new concepts, but much more due to the preconceived notions of its readers, the new theory propounded has caused confusion in many minds; and, I believe, the author is being constantly surprised at the things which are attributed to him as having been expressed, or implied, by him in his book. So that, like the Upanishadic philosopher speaking of God, he has to say now and again, " Not so, not so, my boy." One such denial, no doubt, awaits the attempt made by Mr. H. Somerville in the ECONOMIC JOURNAL of December 1931, to revive the ghost of the Canonist doctrine of usury, with the chant of Mr. Keynes' distinction between saving and investment.

" It is an inescapable conclusion," says Mr. Somerville, " from the Keynesian analysis, that interest is the villain of the piece." " Saving is sterile from the standpoint of the community " when it exceeds investment. " In such conditions it is a matter to be deplored that holders of money are able to get interest by bank deposits. Interest only encourages socially wasteful saving and discourages socially desirable investment. To this extent, therefore, and in such conditions, interest is anti-social." " Interest upon money is simply an added (?) cost upon capital goods and therefore a deduction from profit and a burden upon enterprise." Then follows a statement of the Canonist doctrine, which is described as having, in a sense, anticipated Mr. Keynes' distinction between saving and investment (*e.g.* the doctrine " denied the justice of interest as a reward for saving without investment "). Finally comes the conclusion : " There may be reasons for thinking that the world will go back to the early Canonist doctrine," and the suggestion : " If we could ensure, as the Canonists tried to do, that saving should be rewarded only when it was also investment in capital goods, we should have gone far to stop the master-evil that Mr. Keynes has revealed to us, of saving exceeding investment."

I have quoted Mr. Somerville sufficiently to indicate the main points in his note. The whole argument appears to have been based on two misconceptions; one, as regards the terms " saving " and " investment," and the other, as regards interest in its dual capacity, *viz.* as an element in the costs of production and as the money charge corresponding to the market's estimate of the annual yield from a piece of capital; moreover, there is apparent a bias in favour of entrepreneurs as distinct from the capital-providers.

Readers who have carefully plodded through the *Treatise* need not be reminded that the term "investment" in the Keynesian

sense refers not to what in common commercial parlance we call "putting the money in a business," but to the *new* investment in capital goods that is continually going on, side by side, with the additions of new saving to the existing stock. So long, the doctrine asserts, as the new investment in capital goods is *pari passu* equal to the new monetary saving, there is an equilibrium, the prices of total output neither falling nor rising. Now, the Canonist doctrine of saving and investment, if there was any, rested on a distinction between the money-lenders and the business men, between the debenture-holders and the ordinary share-holders; it regarded the rôle of the latter with benign approval, but that of the former with contempt as one of unwanted parasites on society. In brief, it condemned interest in its nudity, but was willing to connive at it if it was properly wrapped up in the complex of what older writers called "profits."

With the modern dissociation of interest from profit the ground is cleared to regard interest as an element in the costs of production. This, indeed, is mainly its short-term aspect and differs from the long-term one in which the sum of the discounted interest payments made in the future in connection with a piece of capital is regarded as approximately equal to the market's then estimation of the total value of the capital-uses which that particular piece of capital is capable of providing. It is in this latter aspect that the importance of interest lies, in Mr. Keynes' view; for, it is in that capacity that a rise or fall in the rate of interest affects (the Keynesian) "investment." So long as the rate of interest to be paid is lower than the estimated annual yield from the new investment, entrepreneurs will invest, but will be discouraged if it is otherwise. In its short-term aspect, *i.e.* as an element in total costs, interest plays a very small, if any, part as a deterrent or a stimulant to trade; while wages and rents are the principal "villains of the piece." In view of this, it is not clear why Mr. Somerville should single out interest as an object worthy of his special condemnation. Interest is said to be a deduction from profit and a burden on enterprise, but so are wages and rents. Profit being the residuum appropriated by the entrepreneurs, this is inevitable; so also it is inevitable that a diminution or a negation of profit should spell a decline in trade; this sort of thing is bound to happen so long as society entrusts production to entrepreneurs. There is nothing, however, in all this to warrant an invidious attack on the institution of interest.

Nor can Mr. Somerville say that Mr. Keynes becomes a Canonist to the extent that he advocates reduction of the rate of

interest in times of depression. Preoccupation with the critical period through which the world is passing at present must not blind us to the fact that in periods of booms interest may be too low and in need of being raised to discourage the excess of investment relatively to saving. Mr. Keynes himself has pointed this out in his book. Then to that extent Mr. Somerville will have to declare him an anti-Canonist! The fact is that Mr. Keynes urges the raising of the bank rate as a means to check a boom in prices, and on the other hand the lowering of the rate to arrest their decline: he regards it as a useful instrument at the disposal of monetary authorities, to be used in anticipation in the early stages of a precipitate movement. But he has nowhere assailed interest "destructively," as an unnecessary cost. The fault, in his view, lies neither with the savers nor with the investors, but with those who are entrusted with the control of the monetary machine and who fail to bring investment into alignment with saving. There is nothing in this nor in his distinction between interest and profit [1] to enable Mr. Somerville to put Mr. Keynes in "the camp of the Canonists."

It is not necessary to enter into an elaborate refutation of the Canonist doctrine *per se*. The doctrine has been buried long ago by both classical and modern economists. A reiteration of the old arguments will be only an essay in boring; here we were only concerned with the specific question as to whether the Keynesian theory lent any support to the views of the Canonists.

B. P. ADARKAR

III. MR. KEYNES AND THE CANONISTS (ii)

The suggestion of Mr. H. Somerville, in the December number of the ECONOMIC JOURNAL, that Mr. Keynes' analysis of Saving-without-Investment (in the *Treatise on Money*) "is a vindication of the Canonist attitude to interest and usury" is surely due to a confusion of two entirely distinct things.

The Canonist principle was that a person who put money into an enterprise was entitled to be remunerated for the risk incurred, but not for the mere surrender of his own right to use the money himself; if there was no risk there should be no remuneration, merely a repayment of principal. In plain words they forbade the payment of what we term pure interest. Incidentally their concept of risk, at any rate as set forth by Professor Ashley and Mr.

[1] The "profit" of the *Treatise* is not the same thing as the "profit" of the American writers or the "profits" of classical English economists.

Somerville, was exceedingly narrow, being based more upon the fixity of the stipulated reward than upon the inherent elements of chance in the enterprise. "To bargain for a fixed reward, or dividend, upon the capital invested"—this it was that made the contract usurious, according to Ashley; and according to Mr. Somerville the admitted risk incurred by a debenture-holder does not entitle him to remuneration, because "it is not directly a risk of trade but of the solvency of the borrower."

I have endeavoured to reduce the propositions of the Canonists and of Mr. Keynes respectively to their most similar terms in order to see what, if anything, there is in common between them; and I can get no further than this:—The Canonists held that there is a form of investment which involves no risk, and that because it involves no risk it should not be allowed to receive remuneration. Mr. Keynes holds that there is a form of holding of savings which involves no investment, and that at times when the amount of such holding becomes excessive it might well be discouraged by reducing the rate of its remuneration, if necessary to zero. If the proposition that savings deposits might in certain circumstances advantageously be deprived of interest is a "vindication" of the proposition that no interest should ever be allowed on safe investments of any kind, all I can say is that the Canonist doctrine must be very hard up for vindication. Which, of course, at the present time it is.

Both of the two concepts are perfectly clear. Mr. Keynes is talking about the period (which must always exist, but may be shorter or longer) between the act of saving and the act of investment of that which has been saved;[1] during that period the savings are normally in the hands of the saver in the form either of money or of bank deposits. It is obviously desirable that the average length of this period should not increase (beyond its ordinary dimensions), because such an increase diminishes the rate of circulation of money, which has the same effect as a diminution of its supply, namely, to act as a depressant of prices and of business activity. It may be desirable that this period should decrease, very slowly and gradually, for this acts as an *increase* in the supply of money, which is usually desirable in order to keep pace with the natural expansion of commerce.

Now there are certainly times—and the present is a very

[1] [Does Mr. Sandwell mean to imply that an act of saving *must* be followed by an act of investment sooner or later? If so, this is not what I am talking about. I have in mind an act of saving *without* an act of investment; and I see no reason for supposing that such an event must be followed later on by an act of investment without an act of saving.—*Note by J. M. Keynes.*]

conspicuous example—when this period of delay between saving and investment is seriously increased, to the very decided detriment of business activity; and in such times it does appear as if the reduction (possibly to zero, possibly even further, to the point of a handling charge on deposit accounts) of the interest rate as proposed by Mr. Keynes might do something to check the piling up of savings deposits. I have to admit that I am not myself very hopeful of it. The increase in Saving-without-Investment, whenever it proceeds to a serious extent, is due to the expectation of a decline in the price level of capital goods or of the investments which represent them; it comes to an end when that decline is believed to be over. *It is brought about by forces operating from* both ends. Larger amounts are saved, by those who can still manage to save them, because of the apprehension that income will be curtailed or abolished in the near future. Smaller amounts are invested because it is feared that investments are going down. I question whether the interest rate has very much influence in such a situation, except to prevent hoarding from taking the even less desirable forms of currency-holding and specie-holding. It must not be forgotten, moreover, that a strong savings-deposit total is at such times a great advantage to the bank which possesses it; for it enables it to maintain the high liquid ratio which it then requires, without unduly disturbing its commercial loans. (This, of course, involves the admission that the bank is suffering from the same apprehensiveness as its clients, or at least is so conducting its affairs as to satisfy *their* apprehensions; but since they would certainly withdraw their deposits if it did not, and either keep them in the form of currency or put them into a still more liquid bank, it is hard to see how this policy can be avoided—unless we are going to resort to government guaranteeing of bank deposits.)

Interest was not the only subject on which the Middle Ages tried to impose upon mankind the ethics of the early Hebrews; it was merely the one on which those ethics first and most conspicuously broke down. The instant you recognise the right of an owner of productive goods (including land) to alienate his property at his own free will, you simultaneously recognise his right to promise to alienate it in the event of his being unable to repay a debt; and if at the same time you develop a supply of capital goods (other than land) which he can acquire with the proceeds of his borrowing, you have established all the elements of a market for the exchange of present goods against future goods. In such a market, interest is inevitable, it is part of the nature of things; for a given amount of capital goods transferred to possession to-day

is worth more than the same amount of capital goods to be transferred this day twelve months, and the difference is interest, and no amount of prohibition of interest will make next year's goods worth as much to-day as to-day's goods. So long as there is no effective security for the payment of next year's goods, it is possible to disguise the transaction and say that the difference is a compensation for risk; the instant the payment is properly secured it becomes evident that it is really a compensation for mere use.

The real, though perhaps often unconscious, motive behind the contemporary attack upon interest, of which Mr. Somerville affords an example, *is hostility to personal ownership and exchangeability of capital goods.* Now the desirability or otherwise of this system of personal ownership of capital is an arguable subject; but it is misleading in the last degree to take one single but essential element of it and discuss that element as if it were capable of being maintained or abolished all by itself.

Between the citizens of a Soviet state there would be no more need for interest than there was between the members of the Jewish tribes in the Book of Deuteronomy. In the former case all capital goods are owned by the state; in the latter there were no capital goods except such as were indispensable tools of the owner's livelihood and therefore could not be seized for debt. ("No man shall take the nether or the upper millstone to pledge; for he taketh a man's life to pledge.") Between one Soviet state and another there would exist the same freedom as existed between the Jew and the non-Jew ("Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury"); for I suspect that one Soviet will from time to time want to exchange this year's surplus of potatoes for next year's surplus of another Soviet's coal, and the first Soviet will certainly expect to get more coal than if the transaction were "spot." But between the citizens of a single Soviet state there can be no loans except of current consumption goods, and these I suppose will be no more interest-bearing than the friendly transactions in pots and pans and butter and lawn-mowers which go on between neighbours even in a bourgeois community.

Meanwhile the Canonist doctrine seems to afford a splendid springboard for the transition to a full Soviet economy. You have only to get the bulk of the capital goods of the community into the hands of the state in exchange for interest-bearing bonds, and then prove that interest on state loans, which are perfectly safe, must be immoral, and the thing is done. A large part of the community already believes that profit is immoral. Convince the rest

that interest is immoral, and you can abolish both, and it will no longer be necessary to distinguish between them.

B. K. SANDWELL

Montreal.

IV. SAVING AND USURY

There is naturally much to agree with in the preceding notes. Nevertheless, I should like on one main issue to come to the support of Mr. Somerville.

On p. 126 above Prof. Cannan agrees with Mr. Somerville that if saving is conceived as mere refraining from expenditure, or if it is conceived as saving up money, " the case against interest as a consequence of saving is black." But, he continues, " the answer is that interest is not, in fact, obtained in consequence of saving in either of these two senses. No one gets a penny of interest in consequence of merely refraining from expenditure; no one gets a penny of interest in consequence of having merely saved up money." I wish I could agree with him in attributing this natural justice to the economic system, but I am sure that it is not so. Prof. Cannan has, I think, overlooked a vital aspect of the argument in my *Treatise on Money* wherein it differs from what I was brought up to believe and continued to believe until recently.

The point is this. The answer to the question whether there is an increment of wealth corresponding to the savings of an individual seldom depends, as Prof. Cannan claims, on what he does with the money which represents that part of his income which he refrains from spending on current consumption. In particular, the answer does *not* depend, as Prof. Cannan seems to suggest, on whether he " hoards " the money by increasing his cash or uses it to buy a security or some other capital asset. He may use his savings to buy a bond, and yet there may be no increment of capital wealth coming into existence as a result of his saving. I have argued in my *Treatise* that the causes which determine the increment of capital wealth are only contingently and indirectly connected with those which determine the amounts of individual savings. If an increment of saving by an individual is *not* accompanied by an increment of new investment—and, in the absence of deliberate management by the Central Bank or the Government, it will be nothing but a lucky accident if it is—then it *necessarily* causes diminished receipts, disappointment and losses to some other party, and *the outlet for the savings of A will be found in financing the losses of B.*

Thus when an individual saves, his savings *must* be balanced

by the creation either of an asset or of a debt (or a loss paid for by an asset changing hands). But, as a rule, it lies entirely outside the power of the individual saver to determine which it is to be, and whether the result, or rather the accompaniment, of his saving is to be an asset or a debt. What he has done is to make possible the creation of an asset without a rise in the price-level. But failing a simultaneous increment of new investment, either by good management or by a lucky accident, then his act of saving will *cause* an equal loss to someone else; a debt will be created or an asset will change hands, but there will be no increment of wealth.

Does Prof. Cannan hold that if an individual increases his bank-deposit by "saving up" money out of income, there necessarily results an increment of wealth to the community? If so, this is a view with which I have tried to join issue in my *Treatise on Money*; if not, he has failed to meet the point.

Now when an act of saving merely results, however unintentionally, in a loss to someone else, it is of an anti-social tendency, and the subsequent payment of interest to the saver—for, *pace* Prof. Cannan, debts have to pay interest just as much as assets—is a burden which, if it accumulates with time, may become insupportable.

That is why, without contesting anything in Mr. Adarkar's note, I nevertheless agree with Mr. Somerville that it is this social evil, to the possibility and theoretical explanation of which I drew attention in my *Treatise*, which probably lay behind the doctrine of the Canonists. Mr. Adarkar is, of course, perfectly right that the Canonists did not not see the point accurately and that the distinction which they drew between interest and profit does not logically coincide—or, at least, would not in a modern community—with the distinction between interest on savings represented by debts and interest on savings represented by assets. For one thing, it is impossible to earmark any particular savings against particular debts or assets. Yet as moralists they were trying to devise general rules which would be applicable to the actual circumstances of experience. May not Mr. Somerville be right that the social evil of usury, as conceived by the Canonists, was essentially due to the fact that in the circumstances of their time saving generally went with the creation not of assets but of debts? In the Middle Ages the economic circumstances and the magnitude of the risks did not favour capital enterprise, and the annual increment of capital wealth was negligible, zero or negative. Except where it was closely and directly associated with business

or with real estate (exceptions which they admitted), saving almost always had its counterpart in debt and not in assets; so that interest was generally "usury." The rate of interest at that time (as it is throughout the world to-day) was too high to permit an amount of enterprise on a scale equal to the current amount of positive saving. Consequently individual saving was mostly balanced by losses and the incurring of debt; for he who inadvertently incurs a debt through the disappointment of his expectations has to pay whatever he is asked.

Personally I have come to believe that interest—or, rather, too high a rate of interest—is the "villain of the piece" in a more far-reaching sense than appears from the above. But to justify this belief would lead me into a longer story than would be appropriate in this place.

J. M. Keynes

The Place of the "Displacement Cost" Concept in Economic Theory

The notion of the displacement of resources from one employment to another, and the study of the principles which govern this displacement, has been of profound importance to economic thought from very early days. With the development of mathematical economics, and the discovery of the indifference curve analysis, this idea of displacement, expressed quantitatively in the concept of a displacement cost, has become almost supreme in the exposition of economic theory: the easy appearance of exactitude which the displacement cost analysis exhibits has tended to draw economists away from the thornier path of analysis in terms of the elusive concepts of real cost and real income. It may be useful, therefore, to define as accurately as we can our concept of displacement costs, and to investigate the conditions which limit its application.

The displacement cost concept is derived from that of an "economy" or a "displacement system": a displacement system being the result of a division of a given quantity of something—which we may call "resources"—among a number of different uses or "employments." Thus the landowner has to determine the distribution of a given quantity of land—his "resources"—among a number of different "employments," park land, house land, farm land, etc.: every individual has to distribute his money income among various possible lines of expenditure, and has to distribute his time income among the various uses to which his time can be put. The economist himself is concerned

principally with the "social economy," the division of the "resources"—of a society among their various possible uses. A displacement system is not, of course, the process by which resources are distributed, but the result of a distribution. For each mass of resources there are an infinite number of possible displacement systems.

The fundamental characteristic of a displacement system is that the total quantity of resources is fixed. Then, and only then, it follows that a change in the quantity of resources which we employ on any one employment involves a change in the opposite sense in the quantity of resources employed on all the remaining possible employments taken together. This may be called the "slices of cake" view of economic life; the bigger the slice which Johnny gets the less there is for Susie and Jimmie and all the rest of them taken together. This does not mean, of course, that the "cost" of Johnny's extra cake falls equally upon all the remaining participants, but their total loss must equal Johnny's gain.

This we may call the "sacrifices" view of cost: the cost of a thing is what we have to give up in order to get it: it is this view that is at the back of the concept of displacement cost. As a loose concept employed in the general description of economic life this view of cost has considerable value. But when we try to interpret it in a quantitative fashion grave difficulties arise.

We must first note a difficulty arising from the fact that in general the resources which we are considering are not merely divided but employed: they are transmuted into something else. For instance, we are concerned not with the mere division of our money income or our time income among various uses; we are interested in the result of so much money or time spent, in the products which the expenditure of a given quantity of money or time produces. It is not enough to know that we spend so much of our money or time income on procuring boots or so much on procuring hats: we want to know the number of boots and hats obtained per unit of money or per unit of time. We are interested, that is to say, in price: for price as an economic dimension as distinct from mere exchange ratios is "the efficiency of the employment of resources"—the ratio between the quantity of resources applied and the corresponding quantity of resultant product. We usually think of displacement cost in these terms; the displacement cost of three hats is one pair of boots, because in order to obtain those three hats we must give up one pair of boots. Where these hats and boots are on the margin of their own particular line of expenditure the displacement cost gives the

exchange value, but of course the displacement cost concept holds for other than small changes. This argument is mere child's play to the economist. Nevertheless, the significant implications are often missed. The statement that the displacement cost of three hats is one pair of boots is only valid if three conditions are fulfilled. (1) Definite quantities of hats and boots must be produced by definite quantities of resources—*i.e.* they must each have an unequivocal price in terms of resources. (2) The resources by whose employment they are produced must be homogeneous—*i.e.* must be capable of measurement by a common unit—and must, of course, be fixed in total quantity. (3) There must be only two things producible by these resources.

(1) must be satisfied because it is the resources themselves which are really "displaced." The displacement cost of three hats is one pair of boots, because if we spend x units of resources more on hats we must spend x units of resources less on boots (assuming condition (3) to be fulfilled); and hence if we cannot measure units of product in terms of units of resources unequivocally we cannot compare the two products.

The second condition follows from the first: for if the resources cannot be measured by a common unit the displacement has no quantitative meaning. The third condition holds because we cannot, if there are more than two employments, express the displacement cost of the product of one employment in terms of the products of all the others without an extension of our knowledge into the region of the structure of demand. Thus, suppose I am dividing 20*s.* among various lines of expenditure; say, bread, milk, coal and hats. Let p_b, p_m, p_c, p_h, be their respective money prices. Then the displacement cost of x shillings more spent on bread, *i.e.* of $\frac{x}{p_b}$ units of bread, is equal to the product of x shillings less spent on all the rest put together; *i.e.* to $\frac{a}{p_m} + \frac{b}{p_c} + \frac{c}{p_h}$, where the only condition is that $a + b + c$ together $= x/\text{-}$. An infinite number of combinations is clearly possible. If we are to give a quantitative meaning to displacement costs in this case we must know the movements of a, b and c with respect to movements of x: that is to say, we must have a fairly intimate knowledge of the structure of demand. Granting this, however, we may extend the concept of displacement costs to the case where there are any number of employments.

Let us now consider where we shall find a displacement system in economic life; for there only shall we find pure displacement costs.

The "economy of money income" is perhaps the most obvious and the most important example of a displacement system. If we abstract from the actual discontinuities in the flow of money in and out of one's pocket, and think of one's income as if it were a continual steady stream which one divides into a number of smaller streams representing different lines of expenditure, then in the division of this flow of income at a point of time into a number of smaller flows of "outgo" representing different lines of expenditure we have a perfect displacement system: the resources are homogeneous, for there is not the slightest difference between one unit of money and another: the quantity of resources is fixed, for we are considering a point of time only; and provided we know the structure of demand for the different lines of expenditure we can apply the concept of displacement costs quantitatively and unequivocally. This is true also of the economy of time income, abstracted from reality in a similar way.

The concept of displacement costs, however, seems to apply perfectly only to these two abstract cases; as soon as we move further into the region of real economic life it ceases, first to have quantitative meaning, and finally it ceases to have any validity at all. It can be applied vaguely to such displacement systems as the stock of land or of man-made goods existing at a point of time: the condition of homogeneity of resources is lacking here, but as long as the quantity of resources is fixed we can apply the concept of displacement costs in a loose, non-quantitative way.

When we turn to what are loosely called "productive resources" or "resources in general," however, and when we remove the abstraction that the division takes place at a point of time, the concept breaks down completely. The phrase "productive resources" like the word "scarcity," is the philosopher's stone of muddled economists: its magic deludes them into the belief that they are thinking clearly. In the first place, "resources in general," which usually mean nothing more than a hotch-potch of the old "factors of production," are certainly not homogeneous. We cannot add a unit of labour, a unit of capital (whatever that may be), and a unit of land, with perhaps a little entrepreneurial ability thrown in as seasoning, and expect a fine pudding composed of homogeneous "units of productive resources." A yet more significant objection is that as soon as we turn from the consideration of these abstract displacement systems at a point of time to consider economic processes through time; as soon as we exchange the magic-lantern for the cinematograph, the concept of a displacement system breaks down because

our resources are not fixed in quantity. Thus it is not necessarily true that if I employ a certain quantity of productive resources on a certain object I necessarily withdraw them from something else; for in the first place, productive resources are not homogeneous but have a specific character to different employments: hence there is unemployment; and in the second place, considered over any period of time, however short, productive resources are not constant in quantity: hence an increase in the demand for productive resources in one employment may not lead to a decrease in the amount of productive resources in other employments, but may merely lead to an increase in the total quantity of productive resources.

We are now in a position to appreciate more fully the value of the concept of displacement costs for the interpretation of economic life. When we come to this interpretation we find two kinds of facts with which we must deal. The most obvious of these is the observed spectacle of economic process through time; this manifests itself quantitatively through "time series" —the movements of various economic magnitudes with the progress of time. The economist cannot stop with these, however: if he is to analyse time series themselves successfully, he must trace them back to certain psychical and physical facts (such, for instance, as the ordinary supply and demand curve represent), which must be expressed not in terms of movements through time, but as a series of conditional sentences which hold good at a moment of time, irrespective of whether they are realised in the future or not. It is here that we shall find the real place of the concept of the displacement system; in these abstract, ultimate conditions of economic process, not in the study of the processes themselves. Indeed, it is only through the concept of a displacement system that we can understand the nature of these vitally important underlying "General conditions of supply and demand." On the demand side, our resources are our money income: on the supply side, our resources are our income of labour time, qualified by some factor representing the efficiency of labour in the production of real income. The system of displacement costs of the two displacement systems gives us the "general conditions of supply and demand" at a point of time. These systems both determine, and are in part determined by, the economic processes through time: but the pure concept of displacement costs must not be extended into the analysis of process as such if it is to retain its usefulness.

K. E. Boulding

New College, Oxford.

Official Papers

Report of the Committee on Retail Trade Practices. (No. 51–189.) Stationery Office. 1931.

The Lord Chancellor and the President of the Board of Trade set up this Committee in March 1930 " to consider present trade practices which result in withholding from particular retail traders supplies of goods in which they wish to deal or which prevent the resale of such supplies except upon conditions imposed by the suppliers, and to report whether in their opinion all or any of such practices are detrimental to the public interest, and, if so, what alterations in the existing law are necessary to prevent the continuance of such practices." Two extracts from the conclusions of the report typify the general attitude of the Committee after reviewing the evidence. First: " We do not regard the price maintenance system as free from disadvantages from the public point of view, but we are not satisfied that if a change in the law were made there is any reason to think that the interests of the public would be better served." Second: " Though the withholding from retailers of goods in which they wish to deal may cause grievances and in some cases no doubt hardships, we do not consider that any compelling reason for a change in the law has been established." The Committee equally opposed an extension to the trade in *all* price-maintained articles of the special rights of *patentees* to enforce conditions of sale against persons with whom they have no direct contract.

The maintenance of resale prices implies in most cases the maintenance of a fixed margin between a fixed cost price to the retail distributor and his resale price. Two elements of rigidity are thereby introduced into the price system, and a *prima facie* case against resale price maintenance is established. That is not to say, however, that anything should necessarily be done about it. That will depend upon the extent of the practice, the success with which it can be maintained when applied and the practicability of prohibiting its continuance without introducing undesirable interferences with the ordinary right of freedom of contract. It might be perfectly reasonable for a Committee after reviewing the evidence to condemn the practice wholeheartedly but to conclude that it is self-destructive and that any imposed cure is likely to be worse than the disease. The publication of the full evidence might in that case assist by hastening its eradication. Unfortunately this Committee has not yet published the evidence on which it has founded its opinion and has

included only scanty references to the extent of the practice in its report. Its findings may fail to convince both those who are anxious to see the law altered and others who see nothing but good in existing practice, unless this omission is remedied.

One turns to this report for enlightenment on three aspects of resale price maintenance. One is its effect on the level of retail prices, another is its effect on regional differences in retail prices, and the third is its effect on the form of competition between retailers.

In the absence of price agreements, competition between retailers will tend to reduce the margin between cost and selling prices. Savings from improvements in the organisation of distribution will be passed on to the consumer. The maintenance of a fixed margin prevents the public from benefiting by lower prices from such improvements. The margin is fixed by the manufacturer, often under pressure from distributors. His decision must inevitably be arbitrary: usually traders are consulted, but apparently there are rarely formal negotiations. The Committee was told that the margin is fixed as a rule "with reference to the ordinary business of average efficiency." More efficient businesses are thus prevented from giving the public the benefit of their economies by lowering their selling price, and the final price which keeps alive the ordinary business of average efficiency is not necessarily the price which will secure maximum sales for the manufacturer. The Committee does not bring this out clearly. In its view "in considering whether retail prices of branded goods fixed by the manufacturer are reasonable in the public interest, the essential points are whether the retail margin is reasonable for the general body of retailers, and also, of course, whether the price at which the manufacturer sells his goods in the first instance is reasonable." It may well be "reasonable in the public interest" that many of the existing "general body of retailers" should be compelled by price competition either to learn to operate on a narrower margin or to go out of business.

Resale prices normally will be higher, the farther distant the market is from the factory and also the lower is the rate of turnover of the distributing business. Under the system of resale price maintenance, the final retail price is fixed for large zones, irrespective both of the distance (inside the zone) from the factory and of differences in the rate of turnover in different parts of the area. The instability and impermanence of the practice are largely due to this cause. If the manufacturer

pays delivery costs (as he must if he wishes distant retailers to secure the full net margin) he subsidises distant deliveries at the expense, probably, of local trade. To some extent local competition will be stimulated and at the same time the higher price will tend to reduce the volume of sales which he would otherwise be able to make in the local market. More serious are the effects of ignoring differences in rates of turnover on account of differences in the density of the buying population. The margin based upon the market conditions of thinly populated country districts will represent a very attractive return on capital in densely populated areas where the rate of turnover is much greater. New shops come into existence in these urban districts, reducing the volume of trade which each can secure, and price cutting is the inevitable consequence of the endeavour of each of them to pay high rentals and obtain the market rate of interest on capital. More or less successful attempts are made in some trades to combat this tendency by the imposition of a minimum "distance limit" between the retailers who can secure supplies, but in general it comprises the most serious weakness of the whole system. Manufacturers vacillate between the policy of maintaining the largest possible number of distributing units, by fixing a large margin and endeavouring to maintain it by elaborate and expensive systems of tracing and closing the channels by which price-cutters secure supplies, and that of securing the full benefits of increased sales by taking no steps to enforce the "fixed" price in districts where price-cutting exists. One could wish that the Committee, while acknowledging these weaknesses, had laid greater stress upon them. It "saw no reason to suppose that the public interest was adversely affected" by the "distance-limit" schemes. "Loyal" distributors themselves may well come to prefer frank and open competition to the doubtful security of unenforced price maintenance.

In the absence of restrictions upon price adjustment, competition tends to lower final prices. Resale price maintenance diverts competition into channels which are less preferable from the public point of view—extended credit, free delivery, "after-sales service," more elaborate shops, and so on. "It is contended that in many cases the effect is to induce the consumer to accept service which he does not really require, or to make him pay for service which he does not accept." To *extend* the range of compulsory joint supply is a retrogressive step.

Turn from these weaknesses of resale price maintenance, which the Committee describe as "incidental" disadvantages,

to the recital of the advantages of the system. It has already been suggested that a confusion exists between maintaining the maximum number of distributors and securing the maximum volume of sales. The Committee apparently has few doubts as to the harmful reactions of price-cutting not merely upon the trade of retailers but upon the manufacturer. Price-cutting lowers the final price, and while it lasts can hardly *reduce* the volume of sales. Yet the Committee is quite definite that "the manufacturer finds that his sales fall off." "These effects have shown themselves in a large number of trades, and the evidence as to the experience of all trades concerned was in substance the same" (p. 9). If it is argued that *after* price-cutting the total volume of sales is on that account lower than before, it is a pity that the evidence was not explicitly stated. The Committee itself makes, a little later on, the somewhat conflicting statement that "manufacturers are not always anxious to enforce without exceptions the retail prices which they prescribe for their products." The report leaves the impression on the reader that the Committee accepts the arguments which it records as being made in favour of fixing resale prices. Price-cutting, which is not defined, is clearly disliked, and many arguments are brought against it. Some of them are a little mysterious. "We were told that where the prices fixed for branded goods are not enforced, customers lose confidence in the quality of the goods, in the reasonableness of the price ordinarily charged or in the good faith of the manufacturer" (p. 19). It is very likely that the general public is irritated to discover that it need not have paid more than 1*s*. 6*d*. for a box of patent medicine for which it has always given 1*s*. 11*d*., but is it *on that account* any less likely to believe that it is worth a guinea a box? When the public is required to pay the same price for petrol at the port of entry, or outside the refinery, as it has to pay in a remote part of Scotland, are its feelings adequately described by the statement that "they appreciate the knowledge that they can buy similar goods at the same price wherever they happen to be"? In point of fact, it is most unusual for distributors to be prevented from selling *above* the fixed price. The public is generally much too glad to obtain supplies at all in out-of-the-way places to object to pay a little more for the service. If the Committee has recorded the whole of the arguments in its report, the case against the system appears to be much stronger than the case for it.

Resale price maintenance assumes a new importance to distributors, if not to the general public, in times of generally falling

prices. Retailers who are completely free to conduct their businesses as independent principals will cut prices of stocks which they hold as the prices of competing goods fall. Their freedom of action is limited in this respect when the stocks consist of price-maintained goods—the stupidity of a manufacturer may involve them in loss. In such conditions considerable weight attaches to the contention that manufacturers should be required by the distributors, or possibly by law, to assume the liabilities of the principal in distribution in so far as price-maintained articles are concerned, and supply stock "on consignment," to be paid for by the distributing "agents" as and when sold. The Committee makes little comment on this aspect of the question beyond remarking that "there is evidence we think of a fairly widespread reluctance or hesitation to make price changes; and at times such as the present, this, taken by itself, is disadvantageous to the public." It seems, however, to have been definitely of the view that manufacturers who do not bear the risks of distribution are as entitled to dictate the terms upon which distribution shall take place as are manufacturers who distribute through their own shops. "It does not seem to us to be in itself unreasonable or contrary to the public interest for the exceptionally efficient or exceptionally well-placed retailer to be able to obtain branded goods only on condition that he undertakes to observe the uniform price fixed by the manufacturer in the interests of his trade. The charging of uniform prices is a practice commonly pursued by manufacturers who sell their output through their own shops, notwithstanding that overhead costs vary as between different shops" (p. 24).

Not many of the readers of this report will put it down with the feeling that the last word has now been said upon resale price maintenance. Nevertheless, the next Commission to report upon the question will be grateful to the members of this Committee for the work they have done. Is it too late to urge that the evidence be published?

ARNOLD PLANT

International Industrial Agreements. League of Nations. Official No. E. 736. (Allen and Unwin. Pp. 39. 1*s.*)

A PREVIOUS Report on this subject, relating to the positive contents of international agreements, and the industries affected, was reviewed in this JOURNAL for March 1931. The present Report is of a more general nature, dealing with the economic aspects of this important question.

The discussion consists largely of a statement of Cartel structure and policy on well-known lines, and an extension of these considerations to the higher development of cartelled Cartels. The essential new facts concern the relation of Cartel policy to tariffs and dumping.

The Report is a strong defence of Cartels in all aspects, though the alternative of amalgamations has admittedly more possibilities of rationalisation. The main notable omission is that there is no discussion of methods of competitive policy. There are three poles or terms of the whole question; monopoly, administration, and trade practice. Monopoly is a danger, higher administration is a benefit, and the critical distinction between these two things, which look alike as structures, lies in the methods by which they are maintained. For example, this Report points out how Cartel price policy is controlled by new competition, actual or latent; but does not consider the numerous ways in which trade policy can, by exclusive agreements, for example, shut off this control.

There is some inconsistency between the argument (p. 13) that efficiency within Cartels is maintained by the fact that producers must keep in view the date of renewal of the agreement, when new quotas will be fixed or, if the agreement is not renewed, when they must turn to their own clienteles again; and the point made later that real economies depend on the period of the agreements being sufficiently long (p. 20).

Nor is the argument clear as regards the effects on stability. It is stated (p. 25) that Cartels, when business is on the up-grade, "make the rise in prices more moderate than it is under free competition, while in time of depression they offer more resistance to the fall in prices." But (p. 18) it has already been claimed that "in times of crisis a strong Cartel can attenuate the gravity of the situation by stimulating a demand which shows signs of falling off. . . . It can decide more rapidly upon an aggregate reduction of prices intended to increase consumption." Which is it? The latter idea would imply, on the up-grade, a rapid rise in prices to check buying. Should Cartels take over the function, usually left to the banking system, of getting ahead of the market on both sides of the fluctuation; is it stability of employment, or of prices, that is more important?

The Report regards as of the "utmost importance" the question how these agreements will affect tariff policies. The agreements admittedly tend to reserve home markets. *Prima facie*, this substitutes a prohibition for a tariff, and takes the

real control out of the hands of the State. This is an obvious element of danger. It remains obscure how these reservations are operated. But it is pointed out, as had been formerly known, that tariffs are an element in the bargaining when international agreements are made, the more so if they are subject to renewal at short intervals. Tariffs are not, therefore, rendered superfluous; but agreements "reduce the value of customs tariffs to producers." In what way? "When an agreement has been concluded, an increase in tariffs is no longer necessary, as the reserve and quota clauses amount to a protection of the home market" (p. 32). It seems to emerge that international agreements will, for purposes of bargaining, aim at keeping tariffs up, and that these rates will be over-reached in practice by the reservation clauses. This is serious; the more so as the Report implies that the national Cartels have a great deal to do with the tariff rates themselves. It speaks (*e.g.* p. 33) of the degree of protection they will "demand."

A new and real international issue is involved here. The obscurity of *how* exactly the reservations are worked ought to be cleared up. Every national trade policy should have its own criterion as regards tariffs, and must somehow be able to insure the consumer against privately organised methods of exceeding the provision. No one doubts the "great possibilities" of international industrial co-operation which are so often stressed in this Report, but these have other aspects than that of "combating the extreme form of collectivism" referred to in the Preface.

D. H. MACGREGOR

The Functioning of the Gold Standard. League of Nations. Official No. F. 979. (Allen and Unwin. Pp. 115. 3*s.* 3*d.*)

THIS Memorandum, by Dr. Mlynarski, has been prepared for the use of the Gold Delegation of the League of Nations. It reviews the great changes which the gold standard has undergone since the War, in structure and functioning. In a discussion of the adequacy of the world's gold supplies, the author examines specially the views of Cassel, and the calculations of Kitchin. The doctrine of the 3 per cent. minimum inflow is held to have created exaggerated apprehensions as to a possible deficit, and to have retarded rather than accelerated reforms in the use of gold. "Competition on the gold market has become more acute, because every bank desires to secure an inflow of at least 3 per cent. and,

what is still worse, the doctrine of the 3 per cent. inflow diverts attention from the more deep-seated and fundamental factors which are responsible for the more important changes in the general level of prices." The future of the standard, it is argued, depends not so much on the production of gold as on the development of central banking technique. But behind this lie considerations of first importance in the field of public finance and control of expenditure, and above all an international peace. "Whether mankind will be able to avoid economic disturbances resulting from a shortage of gold will depend more on the political co-operation of nations than on the co-operation of Central Banks which can develop only in an atmosphere of increasing confidence, aided by the victory of pacific ideas. War has been and is the greatest enemy of the gold standard."

The views expressed in this Memorandum are, of course, not official.

Employment Regularisation in the United States of America. (American Section, International Chamber of Commerce, Washington. Pp. 83.)

THIS Report is a valuable contribution to an aspect of the employment problem which is apt to fall out of notice where a national system of unemployment insurance exists. The absence of such a system in America has directed attention to the measures which individual employers and their associations may adopt in order to stabilise labour conditions. So far, these measures have been "too limited in range and scope to have had an appreciable effect upon general fluctuations in employment." But they have shown great possibilities, and they have emphasised the need for the recognition of direct business responsibility, whether there are national plans or not.

The first Section contains many interesting figures in relation to the volume of American unemployment, both in the present crisis and at its normal minimum. The minimum is given as a million; in January 1931 the estimate was six millions. Seasonal unemployment was found, by one test, to account for more than half the total, the business recession for slightly over a third. In the absence of any schemes for prevention, the largest businesses had a larger proportional lay-off than those of moderate size. There are some important estimates of the influence of technological changes.

The policies of regularisation are either general management

policies, or "personnel" policies affecting workers individually. The fundamental nature of the former is the planning of work on the basis of business forecasts, especially as regards seasonal changes. The methods are well enough known, but this administrative record is valuable. Striking details are given of the reduction of labour turnover, when the state of the sales market at the moment is not allowed to dictate the production policy. For example, "before instituting a series of market studies, which led to the formulation of a co-ordinated budgetary and scheduling plan, yearly variations from the peak to the low volume of employment in the Walworth Company ranged as high as 67 per cent. During recent years the variation in any one year has not exceeded 7 per cent." Various devices to facilitate making for stock are discussed. The costs of this policy have many offsets in economies. To control the dealers, the retail trade may be dealt with directly, or selling may be integrated, or bills for goods sold in advance of dealers' requirements may be post-dated.

The importance of integrated processes is obvious, as creating a more regular communication between businesses on different levels. Mergers and trade associations give a more secure basis for calculation. The figures regarding the effects of technological changes in widening the market for employment show, on the other hand, the concealed danger of purely restrictive policies.

Personnel policy relates to flexible working periods, the intercompany transfer of employees, reserve wages funds, and dismissal wages or loans. For example, in the Rubber Company, dismissal pay is on the basis of one week's wages for each year of employment. The Harvester Company has a loan fund, workers who are paid off repaying the loan on re-employment by a regular deduction from wages, no interest being charged.

Public policy has mainly to do with the compensatory use of construction programmes. Its weight is indicated by the estimate that 35 per cent. of the normal total expenditure for construction in the United States is for Government programmes. The principle of advance planning for this purpose is embodied in the Employment Stabilisation Act of 1931.

What this Report says about employers must also apply to its own principles. If employers must think about unemployment when trade is still good, the policy of impressing this must itself not fall out of sight except when an emergency has occurred.

The number of companies operating schemes is given as 20

in 1930, after a rapid expansion in that year. In proportion to population, there may be quite as many in England. The Report is striking in its indication of the large field which preventive policy may still occupy.

D. H. MACGREGOR

OBITUARY

WILLIAM ALBERT SAMUEL HEWINS

THE saying "felix opportunitate mortis" has been variously used. Though some might interpret the tragic coincidence as an illustration of the grim irony of capricious fate, others may deem the Latin dictum appropriate to the sudden death, at the age of sixty-six, on the 16th of November last, of the economist-politician William Albert Samuel Hewins, "champion of tariff reform" as he was designated summarily in the obituary notice of *The Times*. "A pioneer in the movement," it was there remarked, "he lived to see the return of a Parliamentary majority largely in sympathy with his ideas," and "on the day of his death" Mr. Runciman—no unworthy or hesitating combatant on the other side in those "controversies of the last generation" in which Hewins had "figured prominently"—announced "emergency proposals" put forward by the Government, to deal with the "abnormal volume of imports." Hewins, indeed, who was his own biographer, in the *Apologia of an Imperialist*, published in 1929, has told with abundant detail, taken from his contemporaneous diary, the full story of what will probably be regarded as the chief chapter of his career. The tale interests not only by intimate light thrown from a fresh angle on the disposition and conduct of statesmen, such as Joseph Chamberlain, Walter Long and Wilfrid Laurier, with whom he came into near contact, but also by the transparent disclosure of the main motive and broad purpose by which his own zeal and diligence in this matter were consistently animated and directed.

It is evident, for example, that he did not wholly approve of the line of argument followed on particular occasions by the masterful protagonist whose general reasonableness he candidly allowed. To remonstrance Chamberlain retorted characteristically that on the platform he must put things in his own way—that to which he was accustomed. Nor can any doubt be felt that it was the imperial aspect of tariff reform by which Hewins was chiefly attracted and inspired, although throughout he had been a convinced

dissenter from free trade dogma, and from the very outset of his economic study he had, of deliberate persuasion, preferred the appeal of industrial and commercial historical fact and changing circumstance to any pontifical prescription dictated once for all by the unbending authority of economic theory. To his pious loyalty to this special cause, whether as Under-Secretary for a brief period in the Colonial Office from 1917 to 1919, or as member of Parliament for Hereford from 1912 to 1918, or as preparer of the many systematic reports and occasional memoranda issued during a long series of years by the Tariff Commission, I will make no further allusion, though I would refer to the short summary of the situation as it presented itself to his gaze in 1924, given with point and comprehensiveness in his *Trade in the Balance*. It is known that he had drawn up with informed care a tariff which could be brought into operation, and whatever opinion might be entertained, favourable or unfavourable, towards his aims, the clear definiteness with which they were framed, and plans for their achievement put forward, could not be impugned.

It should be remembered that of two other notable undertakings also Hewins might be described justly as "pioneer." As the first Director from 1895 to 1903 of that established institution of high repute, the London School of Economics and Political Science, and as the schemer and executive officer of the commencing three large gatherings at Oxford, in the summers of 1888, 1889 and 1890, of University Extension students, he showed, and proved, rare capacity for grand organisation. In the former instance he had the growing satisfaction of witnessing big development from a small beginning; and it was to his stimulating boldness of design, and to his unwearying minute pains in detailed execution, that the recognised success of both these projects must be largely ascribed. He was, it may be, then as later in his career, disposed, like Chamberlain, to be masterful, but he could make things move to his purpose. Here, however, I venture to consider it more fitting to draw attention to another phase, and to recall the earlier work done by him as student and researcher. In dealing with this period of his life I enjoy the benefit of information kindly furnished by Sir Charles Firth, to whose guidance and impulse Hewins frankly made grateful acknowledgment in his *Apologia*. Their appreciation, it will be seen, was mutual.

To the second volume of this JOURNAL Hewins contributed two reviews—one of Thorold Rogers' *Industrial and Commercial History of England*,[1] and the other of the second volume of Cunning-

[1] P. 520.

ham's *Growth of English Industry and Commerce.*[1] They are instructive for the illumination they throw on his independence of judgment as well as on the width and depth of his acquaintance with economic history. He admits the existence of error, and even of serious error, detected in the writings of the former by subsequent inquiry, and calls in question some "generalisations" drawn from "scanty" or "inconclusive evidence." But, he generously adds, the "element of permanence" in Rogers' work "will become clearer with the lapse of time," and, as it is, his own writing could supply the "best correctives" of his earliest "crude theories," while he himself did not consider "final" his first "interpretations" of the facts gathered by his "vast labours." Sir Charles Firth, who states that from the end of the letter L, Hewins contributed lives of economists to the *Dictionary of National Biography*, says that his article therein on Rogers has always seemed to him to be "very good." On the other hand, Cunningham is no less faithfully handled by Hewins. While the "interesting" volume he is reviewing contains, as he acknowledges, "much new material," yet its worth, he avows, depends on the "method of investigation," the principle of selection of evidence and the "soundness of the author's judgments." Hewins frankly criticised the method announced, but not, he admits, always followed. He affirms that some evidence is over-valued to the neglect of other material, and he severely condemns the judgment passed, for example, on the Mercantile System as inadequate, on the Corn Law of 1689 as questionable, and on the Statute of Apprenticeship as sorely in need of correction in the light of fresh data discovered by himself (with the help, it may be added, of Sir Charles Firth). It is true that Cunningham made[2] no unsuccessful a reply to this stern reprobation, and that, subsequently,[3] Hewins' own summary of the results of research into the last of the three issues raised might on the whole be pronounced to justify at any rate Cunningham's criticism of Rogers thereon. But it is noticeable that in his answer Cunningham described Hewins as a writer who was not only "learned" but also "careful," and that Professor Bastable, reviewing Hewins' small book on *English Trade and Finance in the Seventeenth Century*,[4] published in 1892, affirmed that the author, departing from the "beaten track" of "extension manuals," had given instead a "number of

[1] P. 694.
[2] Cf. ECONOMIC JOURNAL, IV. p. 508.
[3] Cf. ECONOMIC JOURNAL, VIII. p. 340.
[4] Cf. ECONOMIC JOURNAL, II. p. 527.

original inquiries" together with "exceedingly interesting" sections on some of the economic theories and controversies of the seventeenth century and the commercial policy of the eighteenth that raised a hope of a "more elaborate account." In addition to his contributions to the *Dictionary of National Biography*, to Palgrave's *Dictionary of Political Economy*, and to *Social England*, Hewins wrote the article on Economics for the 1902 edition of the *Encyclopædia Britannica*. Like its famous predecessor, which came from Ingram's provocative pen, that account of the study might be charged with a bias which did not favour orthodox economic theory, but it was reasoned and informed. He also held from 1897 to 1903 the Tooke Professorship of Economic Science and Statistics at King's College, London, and in 1898 edited the Whitefoord papers.

In a letter to the writer of this notice, Sir Charles Firth describes how Hewins, as a Scholar of Pembroke College, Oxford, after getting a first-class in Mathematical Moderations in 1885 and a second-class in the final Mathematical school in 1887, thought of taking Modern History as an additional school. He abandoned the idea but worked independently as a pupil with Sir Charles, who, finding him interested in Economics, directed his attention to the economic history of the seventeenth century, to which Hewins addressed himself "*con amore*" with his "usual energy." He showed "such promise" as an economic historian that his instructor wanted him to go to Germany for a year and study under one of the professors of that country. This project did not materialise, but, lecturing on Economics in Oxford for a term, he secured a large class; and Sir Charles, referring to Hewins' acknowledgments to himself mentioned before, sums up his favourable judgment of his pupil by saying that his "obvious ability, his industry and his interest in his work" "made it worth while to spend trouble on him."

To this laudatory testimony, which will commend itself to the readers of the ECONOMIC JOURNAL, I would only add, as the recollection of friendly intercourse with Hewins while he was living and working in Oxford, that he was an agreeable, sympathetic, instructive and elevating companion, producing the impression alike of a keen and exact student, and of an uncommon personality, strong, purposive and independent. *The Times* remarked that he was not a "very effective Parliamentary debater," but my own memory recalls vividly the forcible effect upon myself of the persuasive vigour of the first public utterance to which I listened from Hewins' lips. Whether it was well or the reverse that, in

Sir Charles' graphic words, the "cares of the world" should "spring up and choke" his earlier impulse to research (for, he adds, it is "hard for an economist not to become a politician") must remain a moot point. What is certain is that in either case the ability and energy of Hewins could not remain a negligible quantity. L. L. PRICE

ADAM WILLIS KIRKALDY (1867–1931)

ADAM WILLIS KIRKALDY, who died on December 29, 1931, was born in London, December 1, 1867. He was Lecturer in Commerce in the University of Birmingham, 1903 to 1906, Professor of Finance in the same University, 1906 to 1919, and Professor of Economics and Commerce, University College, Nottingham, 1919 to 1931.

Educated privately, Kirkaldy entered the family shipping business in Sunderland, in which he became a partner at the age of twenty. Six years later, in 1893, he abandoned a business career and entered Wadham College, Oxford, where he graduated in 1896 with a second class in the Honours School of Modern History. At that time Oxford was able to offer but little to the student of Economics, and Kirkaldy sought in Paris what he failed to find in the University of his choice at home. He returned to Oxford in 1899 and occasionally lectured on Economics to candidates for the Civil Service between that date and 1903. In the latter year the late Sir William Ashley, struggling with the task of setting up a Faculty of Commerce imposed on the newly-founded University of Birmingham by Joseph Chamberlain, invited Kirkaldy to join him as assistant. When promotion to a chair took place in 1906, the title of Professor of Finance was selected, not because Kirkaldy was particularly interested in Finance, but because Ashley's concepts of the duties to be attached to such a chair could easily be fitted into the general framework he had outlined for his Faculty when, ultimately, its permanent organisation should have to be considered. Actually, the duties of the chair included all the instruction in economic theory that Ashley could be persuaded to acquiesce in for students undergoing definite training for careers in business—in addition to certain courses on the Technique of Trade modelled on courses of the same name in the German Handelshochschulen.

In Kirkaldy, Ashley, who was never quite at ease in intercourse with business men, found the colleague he needed to supplement his own deficiencies. Jointly, they succeeded in

breaking down the opposition to the idea of University training for business in a very conservative commercial and industrial community, and by 1914 they felt the foundations were so securely laid that the details of curriculum designed to impress the "practical" man were no longer of paramount importance and that the time had come when more attention might fittingly be paid to economic studies with a less directly practical appeal. The intervention of the war, however, rendered academic work of minor importance for a time; and Kirkaldy rendered much service in connection with the O.T.C. and as sub-commissioner for trade exemptions in the West Midland area under the Ministry of National Service. At the conclusion of the war he was appointed to the chair of Economics and Commerce at University College, Nottingham, where his wide business experience made him more acceptable even than he had been in Birmingham to the practical men of affairs. He was soon elected a member of the Council of the Nottingham Chamber of Commerce and became, in due course, its Chairman and Deputy President. From 1925 to 1929 he was Chairman of the Unemployment Committee in Nottingham and Chairman also of the important Tailoring Trade Board. Moreover, he found time from 1927 to 1931 to serve as a member of the Nottingham City Council, and his generous help was always at the disposal of any organisation and society which sought to play a part in the economic life of the East Midlands.

It was, perhaps, natural that a teacher of Economics who maintained contact so close (and so unusual in England) with business committees and with details of administration should exhibit in his lectures and his writings little sympathy for the finer points of abstract economic theory. But this did not render him an unattractive tutor even to students who desired to pursue these studies further than he considered worth while; for his intimate knowledge of both British and French trade and industry, combined with his intuition and his accurate insight into the manner in which the minds of business men react to changing situations, made him exceptionally informing and a reliable guide for students in a period of rapid economic movement. His published works, suggested by the lecture courses imposed upon him by Ashley in Birmingham, include *British Shipping*, 1919; *The History and Economics of Transport* (in collaboration with one of his pupils, A. Dudley Evans), 1915, and elementary text-books on Commerce and Economics.

He was President of Section F at the British Association Meeting of 1916 at Newcastle-on-Tyne, and he edited two reports

(*British Labour*, 1914–21, and *British Finance*, 1914–21) of committees of inquiry appointed on that occasion. These are authoritative and useful records of important economic events in the war and immediate post-war period.

His genial presence and characteristic kindliness will be greatly missed by a wide circle of students and of business friends and associates, especially in the Midlands, in the life of which he played so large a part.

J. G. SMITH

Birmingham.

CAMILLO SUPINO

CAMILLO SUPINO, who died at Milan on the 10th December, 1931, at the age of seventy-one, was, in the most literal sense of the term, a self-made man. Compelled in his youth to work in his father's shop, he was nevertheless driven forward by the activity of his mind to steal the hours of sleep for the study of political economy; with the result that he became solidly grounded in that science, and in 1887 was called to the Chair of Political Economy in the Technical Institute of Genoa, although he had not even attained the degree of the doctorate of law. He was subsequently Professor at the Universities of Messina and of Siena and, since 1902, of Pavia, where he was lately President of the Department of Law.

Amongst his numerous publications there stands out his *Shipping from the Economic Standpoint* (1890, second edition 1913), a standard work, which provides for the first time a theoretical foundation for that important subject. This work established him as the leading Italian authority in that field and procured him a seat in the Superior Council of the Mercantile Marine and afterwards in that of the Naval Register. But he also won a lasting reputation from his treatment of money and credit. His book on the *Rate of Discount* (1892) developed with great ingenuity an original theory which has given occasion for much discussion. His work on *The Stock Exchange and Unproductive Capital* (1898) ably analysed a form of capital which, in spite of its importance, has been unhappily neglected by the classical economists. His *History of Italian Paper Money* (1895, second edition 1929) contains a complete narrative and an acute criticism of Italian currency; whilst his *International Money Market* (1910) shows at its best the ability of the author in finding his way clearly through the labyrinth of monetary detail.

His versatility of mind enabled him to write also on *The Economic Foundations of the Labour Movement* (1925), a work which is admirable for its lucidity and literary elegance. Of his *Principles of Political Economy* it is sufficient to say that the book is now in its eighth edition. But this short notice would be incomplete unless we recall that Supino had acquired a further scientific pre-eminence on the eve of his death by a splendid opposition to some recent aberrations aimed at making economic science a slave of passions and of parties.

The high esteem in which he was held, at home and abroad, found formal record in two volumes published in the year 1930, on the occasion of his professorial jubilee, with contributions from forty-four economists of all countries. Moreover, the united tribute of praise from colleagues and pupils, given to his memory on the occasion of his death, has brought out in clear relief the rare candour of his soul and the singular uprightness of his character as a noble example to those who follow after.

ACHILLE LORIA

CURRENT TOPICS

THE following have been admitted to membership of the Royal Economic Society :—

Aitken, J.
Arthur, W. M.
Ashley, L.
Ashworth, T.
Bates, S.
Beverley, S. C.
Beynon, T. J.
Billing, G. C.
Boey, P. L.
Border, A. J.
Bott, E. H.
Bown, F. J.
Bray, R. A.
Brooke, D. G.
Brown, A. H.
Bruce, H.
Buckley, H. L.
Bull, T. H.
Burns, W. A.
Bushell, P. H.
Button, H. S., J.P.
Buxton, J.
Cameron, R.
Cappleman, J.
Carruth, J. K.
Carter, C. S.
Chhotai, N. N.
Clements, J. F.
Coatman, Prof. J.
Cobham, G. W.
Cockle, M. W.
Cole, W. C.
Cooper, A. G.
Coote, C. J.
Copeland, T. E.
Cramp, Miss I. G.
Cunliffe, A.
Dalby, J. F.
Dale, H. S.
Damerell, N. W.
Damiano, Dr. C.
Davenport, R. W.
Davies, E. G.
Davies, E. J.
Dawes, F. G.
Dawes, H.
Desai, B. M.
Desborough, E. R.
Dies, E. J.
Dixon, J.
Dobson, W.
Dockerell, E.
Dodd, H. G.
Dogra, M. A.
Dolezel, Prof. I. K.
Doust, H. E. J. M.
Drake, G. W. C.

Dudley, R.
Dunnigan, W. Y.
Duxon, J. H.
Egerton, Mrs. K.A.H.
Farrell, R. H.
Fife, C. M.
Finney, R. A.
Firth-Swinbanks, W.
Fisher, W. A.
Fu, Shang-Ling.
Fujita, T.
Gammon, A. C.
Gap, J. G.
Gesundheit, Miss R.
Ghee, Ong Thye.
Gibbs, T. N.
Graham, Prof. F. D.
Greenman, S. A.
Greenwood, A. E.
Greenwood, W. H.
Griffith, P. G.
Griffiths, O. H.
Hackman, J. E.
Haddon, W.
Hadid, M. H.
Hale, F.
Hamza, A. el-M.
Harborne, T.
Harkness, R. M.
Harris, F. L.
Harrison, W.
Harrow A. A.
Harvey, H. F. G.
Heath, A. L.
Hetherington, J. R.
Hirst, G. A. N.
Hodgson, H. M.
Hodson, A.
Houseman, B. G.
Humphreys, B. R.
Inman, J.
Jackson, H.
Jackson, H. B.
James, C. L., Ph.D.
Jamieson, A. A.
Jenkin, H. J.
Jennings, G. C.
Jennings, H. L.
Jervis, C. R. H.
Johnson, C.
Kalb, J.
Kannappa, M. A.
Keeling, H.
Kelsey, G. H.
Kilroy, P. J.
Kipps, W.
Kirk, J. H.
Knowles, J. M.
Krishnan, K. S. S.
Langdon, J. C.
Langham, H. L.
Larranaga, P. J. M.
Lebern, S. A.
Ledward, P. A.
Leighton, B. J.
Lewis, W. D.
Lightbown, H. N.
Liscombe, J.
Livay, E.
Longley, S. E.
Lorie, S. H. C.
Lyell, H. P. J.
Lyons, W. J.
McLeod, C. T.
Macpherson, G. P. S.
Makower, Miss H.
Maloney, A. J.
Mann, F. G.
Martin, C. H. F.
Martin, T. S.
Matthews, H.
Maufe, G.
Maung, M. T.
Maurice, R.
Meddings, F.
Mehrban, N. A.
Mehta, J. K.
Mellick, J.
Melville, L. G.
Meredith, E. P.
Moorey, S.
Moran, G. L.
Morris, F. A.
Mukerjee, K. K.
Munday, F. G.
Murray, W. N.
Murray, W. R.
Mushtagi, A. K.
Nath, C. S.
Nial, H. R.
Niccoli, Dr. A.
Nicholson, G. W.
Osborne, B. E.
Page, J. W. L.
Paish, Sir George.
Pakis, E.
Pandya, A. B.
Parker, A. S.
Parmelee, R. C.
Peach, F.
Penha, P. de La.
Perera, P. E.
Picard, R. I. C.
Pool, A. G.
Price, J. R.
Rajagopalan, C.
Rajah, G. M. K.
Rangaswami, V. K.
Reed, A. E.
Reeve, W. E.
Riding, W. F.
Roberts, Dr. H.
Robertson, C. J.
Robinson, A.
Rodano, Dr. C.
Rodway, R.
Rountree, G. M.
Rowland, P. J. C.
Roy, B. B.

Rust, H. G.
Samuel, D.
Sapru, H. N.
Schupbach, E.
Scott, L. P.
Seed, H. E.
Sharp, J. C.
Shepley, J.
Sherman, J. V.
Shimmin, A. N.
Silburn, L. J.
Simmonite, G. A.
Simpson, H.
Smith, A. A.
Smith, B.
Smith, G.
Smith, M.
Snell, N.
Somers, R. H.
Spalton, D. E.
Starling, R. H.
Steele, F. M.
Stewart, A. McL.
Stoby, I. S.
Stockdale, E.
Stones, H.
Stoodley, V. M.
Strachey, E. J., M.P.
Sudworth, E.
Sumner, G. C.
Sutcliffe, Prof. W. G.
Sweejy, A. R.
Tak-Kwong, Wong.
Taylor, A.
Taylor, C. E.
Taylor, D.
Thompson, S. M.
Thomson, J. N.
Tollafield, F. C.
Tose, L. La V.
Townsend, W., Jr.
Trevithick, R. G.
Trivedi, C. M.
Turner, Miss J. B.
Tzankov, A.
Van der Byl, F. V.
Van Heerden, P. de K.
Vondrak, Dr. J.
Wager, W.
Walker, C. H.
Warbasse, J. P.
Warriner, Miss D.
Watkinson, C.
Watson, J.
Weaver, D.
Webb, Miss U. K.
White, J. H.
Whitfield, G. W.
Whittemore, R. D.
Williams, Rev. A. T. P.
Wilson, Miss E. C.
Wilson, F.
Wilson, S. G. C.
Wiltshear, S. B.
Woo, Ting-liang, Ph.D.
Woolsey, H. W.
Worsley, H.
Wraith, C. O. B.
Zimmermann, E. M.

The following have been admitted to life membership of the Society :—

Beddington, R. E. L.
Brian, A. V.
Burns, A. R.
Calkins, R. de B.
Cheng, Dr. Ming-Ju.
Fraser, L. M.
Gifford, C. H. P.
Haves, Capt. T.
Hotelling, Prof. H.
Joseph, Miss M. F. W.
Kahn, R. F.
Koster, R.
Levitt, C. B.
Lovat Fraser, K.
Luzzatto, Dr. M.
McCoubrey, J.
Manasoi, D. M.
Marquis, F. J.
Melchett, Baron.
Popesco, A. J.
Ratnam, G.
Robertson, H. M.
Rodyk, A. H. B.
Sharp, G. M.
Thomas, J. W.
Thompson, R. M.
Wilson, J. R.

The following have been admitted to Library membership :—

Attached Middle School, North-Eastern University, Mukden.
Bank of New South Wales. (Composition for fifteen years.)
British Rolling Mills, Ltd., Tipton.
Catholic University, Peking.
Department of Economics, Westminster College, Pennsylvania.
Department of Finance, Batavia. (Composition for fifteen years.)
Director of Co-operation, Kuala Lumpur.
Durham University.
Fuh Tan University, Shanghai.
Giannini Foundation Library, California.
Holy Cross Library, Massachusetts.
National Bank of New Zealand, London.
National Bank of New Zealand, Wellington.
Parliamentary Library, Southern Rhodesia.
School of Commerce, University of Georgia.
School of Economics and Commerce, Dundee.
Tredegar Workmen's Institute Society. (Composition for fifteen years.)
Turner Brothers Asbestos Company, Ltd.
Wadham College, Oxford.
Zentralbibliothek Zurich.

MEMBERS will have recently received three special memoranda prepared by the London and Cambridge Economic Service, namely: No. 33, the usual Quarterly Bulletin on Conditions in Great Britain; No. 35, the annual Bulletin on Conditions in Europe; and No. 34, being the third of Mr. Rowe's special studies on the control of raw material supplies, dealing with Brazilian Coffee. The attention of members is also called to a circular which they will have received with these memoranda containing particulars of certain new publications available to members of the Society on special terms, namely: Dr. Bonar's Catalogue of the Library of Adam Smith; Mr. Higgs's edition of Cantillon's *Essai*; and Professor Greig's definitive edition of the *Letters of David Hume*. It is particularly hoped that members will give their support to these publications.

The attention of members is also called to the fact that additional volumes are now available in the London School of Economics Series of Reprints of Scarce Tracts in Economics and Political Science. Two further volumes have been issued since the last announcement, namely: No. 10. *Mathematical Psychics*,

by Professor F. Y. Edgeworth, which has been out of print for a considerable time and is being republished with the kind permission of Mrs. Montgomery, Professor Edgeworth's niece; and No. 11. *Grundzüge einer Theorie des wirtschaftlichen Güterwertes*, by Professor Böhm Bawerk, which has only appeared previously in *Jahrbücher für Nationalokonomie* for 1886, and is being republished with the kind permission of Mrs. Oelzelt of Vienna, the author's sister-in-law. These volumes are published at 5*s*. each, but will be available to members of the Royal Economic Society at the reduced price of 3*s*. 6*d*. each. Application should be made for these to the Assistant Secretary of the Society, 6 Humberstone Road, Cambridge.

For a complete list of publications available on special terms, members are referred to the list printed amongst the advertisement pages of this issue of the JOURNAL. This list will be reprinted in future in each quarterly issue.

THE following appointments are announced :—

K. S. Isles, M.A. (Tasmania), B.A. (Cantab.), has been appointed a Lecturer in Political Economy in the University of Edinburgh.

Stewart Bates, M.A. (Glasgow), has been appointed Assistant Lecturer in Political Economy in the University of Edinburgh.

Edmund Whittaker, B.Sc. (Edin.), has been appointed first holder of the new Chair of Economics in the University of Natal. Mr. Whittaker graduated with First Class Honours in Economic Science at Edinburgh in 1928, and has since held the post of Economic Adviser under the East of Scotland College of Agriculture.

THE Agricultural History Society of America wishes to secure as full bibliographical information as possible relating to books or essays on agricultural history published in the British Isles for inclusion in its quarterly Journal. Writers of essays on farming history and the history of rural life in all its phases are therefore requested to forward details of their publications from time to time to the Associate Editor, Mr. G. E. Fussell, at 47 Maple Street, W. 1. Information regarding sections of scientific works which contain historical data, works of general history or the history of specific trades or districts which contain sections dealing with agricultural history might also be included. The Quarterly Journal of the Society, *Agricultural History*, is obtainable on payment of an annual subscription of $3, which should be forwarded to the Treasurer, Agricultural History Society, Room 304, 1358 B Street S.W., Washington, D.C., U.S.A.

The Annual Conference of the Association of Teachers of Economics was held at Wantage Hall, Reading, during the week-end January 1–4, 1932, when over 60 members were present. At the opening Session on Friday evening, the Conference had an opportunity of welcoming Professor Wesley Mitchell, who initiated an interesting discussion on some of the fundamental assumptions underlying modern economic analysis. On Saturday morning Professor F. A. Hayek gave a paper on "Some Disputed Points in the Theory of the Credit Cycle," in which he criticised the view that the present depression is due largely to deflationary policies and lack of purchasing power, and stressed the importance of a fuller understanding of the nature of the capitalist structure of production. The evening discussion was opened by Mr. D. H. Robertson with a paper on "The British Currency Problem," which led to a very full and vigorous discussion on the practical issues involved in the alternatives of a managed currency and a return to gold, with or without devaluation. Unfortunately Mr. G. F. Shove was prevented by illness from opening the discussion on Economic Theory which had been announced for Sunday evening, and his place was taken at very short notice by Mr. H. D. Henderson, who gave an interesting analysis of the various stages in the development of the problems of Reparations and War Debts, and proceeded to an examination of various possibilities and probabilities of future settlements.

At the Business Meeting it was decided that the name of the Association be changed to "The Association of University Teachers of Economics," and Professor H. A. Marquand and Mr. Stanley Parris, both of University College, Cardiff, were re-elected as Hon. Treasurer and Hon. Secretary respectively. It was decided that the next Conference be held, if possible, at Bristol, during the week-end January 6–9, 1933, and Mr. Hamilton Whyte was appointed Hon. Conference Secretary.

Membership of the Association is open to all teachers of Economics and allied subjects in British Universities and University Colleges. Applications for membership and notification of the next Conference programme should be accompanied by the Registration Fee of One Shilling per annum.

RECENT PERIODICALS AND NEW BOOKS

Economica.

NOVEMBER, 1931. *The Pure Theory of Money.* J. M. KEYNES and F. A. VON HAYEK. *The Economic Significance of Public Utilities.* F. C. BENHAM. *The Indian Exchange Problem* 1919–20. R. S. SAYERS.

International Labour Review.

OCTOBER, 1931. *Finance and Industry; the Macmillan Report as a basis for international action.* P. W. MARTIN. *Woman Labour in India.* R. K. DAS. *The Use of the Employment Exchange Service in Great Britain as a Labour Clearing-house.*

NOVEMBER, 1931. *A World Programme of Organic Economic Reconstruction.* G. DE MICHELIS. *The International Regulation of Hours of Work in Coal-mines.* (Ed.). *Woman Labour in India.* R. K. DAS.

DECEMBER, 1931. *Is Unemployment Insurance a Cause of Permanent Unemployment?* F. MAURETTE. *Finance and Industry: the Macmillan Report* (contd.). P. W. MARTIN. *The New Commonwealth of Australia Conciliation and Arbitration Act.* O. DE R. FUENANDER. *Holidays with Pay for Private Employees.*

Indian Journal of Economics.

OCTOBER, 1931. *Optimum Taxability.* D. GHOSH. *Land Rent and Prices.* D. H. BUCHANAN. *Crops and Population Density in Bihar and the United Provinces.* R. K. MUKERJEE and B. GANGULI.

The Economic Record.

NOVEMBER, 1931. *Financial Reconstruction.* F. A. BLAND and R. C. MILLS. *Some Economic Aspects of Grazing and Pasture Management in Australia.* S. M. WADHAM. *Australian Monetary Policy reviewed.* R. WILSON. *The Federal Income Tax Acts,* 1915–31. H. S. CARSLAW. *Scourging the Money-changers.* E. C. DYASON. *Public Finance and Depression in New Zealand.* A. H. TOCKER. *The Doctrine of Rationalisation.* F. R. E. MAULDON. *The Reports of the Sugar Inquiry Committee.* J. M. GARLAND.

The Manchester School.

Vol. II. No. 2. *Consumers' Income and Outlay.* R. G. HAWTREY. *The Present Economic Situation.* G. W. DANIELS. *The Economic Significance of "Gold Maldistribution."* T. E. GREGORY. *Higher Taxation or Higher Wages.* C. PAGNI. *The Abandonment of the Gold Standard.* J. STAFFORD.

Quarterly Journal of Economics.

NOVEMBER, 1931. *Economic Aspects of Adulteration and Imitation.* C. L. ALSBERG. *Velocity Concepts and Prices.* R. H. LOUNSBURY. *The Separation of Ownership and Control in American Industry.* G. MEANS. *Wants and Activities in Marshall.* T. PARSONS. *The Coffee Industry and the Tariff.* R. B. PETTENGILL. *Unemployment; its Literature and its Problems.* R. S. MERRIAM.

Review of Economic Statistics (Harvard).

NOVEMBER, 1931. *Foreign Trade and the Business Cycle.* C. J. BULLOCK and H. L. MICOLEAU.

American Economic Review.

DECEMBER, 1931. *The Physiocrats.* N. J. WARE. *Wage Levels between Firms.* H. L.-R. FRAIN. *Profits and Size of Firm in the Automobile Industry.* R. C. EPSTEIN. *Institutional Economics.* J. R. COMMONS. *Stock Dividends and New York Stock Exchange.* H. C. FREEMAN. *A Mediæval Tax Problem.* E. R. A. SELIGMAN. *The Shanghai Tael.* J. P. YOUNG.

Annals of the American Academy of Political and Social Science.

NOVEMBER, 1931. *An Economic Survey of Australia.* (*Population and Economic Resources; Trends in Production and Trade; Industrial Organisation and Economic Control; Labour and Industrial Relations; Public Finance and State Enterprise; Politics and Industry.*) By D. B. COPLAND, G. L. WOOD, F. R. E. MAULDON, L. F. GIBLIN, G. ANDERSON, S. M. WADHAM, and others.

Journal of Economic and Business History.

NOVEMBER, 1931. *Methods and Leadership in Wall Street.* A. D. NOYES. *American Hosiery Industry, with special reference to the downward trend of prices.* R. J. WOODRUFF. *The Susquehannah Company,* 1753–1803. J. P. BOYD. *Eighteenth-century English Merchants.* E. DONNAN. *Sir Bevis Bulmer; a large-scale speculator of Elizabethan and Jacobean times.* H. M. ROBERTSON. *Deposit Banking in Barcelona,* 1300–1700. A. P. USHER. *Economic Life in Japan,* 1600–1868. Y. ICHIHASHI.

Journal of Political Economy.

OCTOBER, 1931. *Léon Walras and the " Cash-Balance Approach " to the Problem of the Value of Money.* A. W. MARGET. *The Early American Reaction to the Theory of Malthus.* G. J. CADY. *Methods in Social Science.* W. H. HAMILTON, D. H. TAYLOR, A. B. WOLFE. *The Inter-relation between Capital Production and Consumer-taking.* R. FRISCH. *Karl Bücher.* J. F. NORMANO. *A Further Note on Average Elasticity of Demand.* A. J. NICHOL.

DECEMBER, 1931. *Marxian, Liberal and Sociological Theories of Imperialism.* E. M. WINSLOW. *The Significance of Time Deposits in the Expansion of Bank Credit,* 1922–26. D. R. FRENCH. *Prospects of Southern Textile Unionism.* G. T. SCHWENNING. *An Economic Trend for Price.* C. W. COBB. *Capital Production and Consumer-taking.* J. M. CLARK.

Wheat Studies.

(Food Research Institute, Stanford, California.)

NOVEMBER, 1931. *Cycles in Wheat Prices.* The record of weekly wheat prices over forty-three years presents a panorama of price movements, one movement merging into or superimposed upon another; there is little evidence in the record to support the concept of seasonal price levels with appropriate interseasonal transitions.

DECEMBER, 1931. *The World Wheat Situation*, 1930–31. The crop of 1930 (excluding Russia) unexpectedly turned out larger than in any preceding year except 1928. Russia had a bumper crop and became a major exporter for the first time since the war. The inward carry-over was also large. As a result, wheat prices since January 1931 have been lower than in any year since 1894, and in terms of commodities in general wheat has been unprecedentedly cheap. Stabilisation operations in the U.S. kept their domestic prices out of line with other markets.

JANUARY, 1932. *Survey of the Wheat Situation, August to November* 1931. Burdensome supplies and low prices continued. Though the world crop of 1931 (excluding Russia and China) was 100,000,000 bushels below that of 1930, total supplies were almost as large as in the preceding year. It appears that world stocks may be reduced by 100–150 million bushels by the end of the crop year 1931–32.

Revue d'Économie Politique.

SEPTEMBER–OCTOBER, 1931. *La réforme monétaire en Suisse.* G. PAILLARD. *La notion de groupe industriel.* F. PERROUX. *Essai sur le mouvement protectionniste en Grande-Bretagne.* J. WEILLER. *La vie économique en Russe.* B. ELIACHEFF.

Journal des Économistes.

DECEMBER, 1931. *Les périls actuels.* E. PAYEN. *Les États-Unis de l'Amérique du Nord.* R. J. PIERRE. *L'économie espagnole et le problème monétaire.* H. DEVILLEZ.

Schmollers Jahrbuch.

OCTOBER, 1931. *Ökonomie der Konsumtion.* R. WILBRANDT. *Das Tableau économique Quesnays und seine erklärung.* U. VOELCKER. *Die Einkommensverschiebung in Österreich während des Weltkrieges.* U. VON SPITZMULLER.

DECEMBER, 1931. *Über das theoretische Grundproblem der sowjetrussischen Wirtschaftspolitik.* T. SURANYI-UNGER. *Die Kaufkraft des Geldes und die Stabilisierung der Wirtschaft.* G. HABERLER. *Grundsätzliches zu den Möglichkeiten einer Preis- und Lohnpolitik.* H. JURGEN-SERAPHIM. *Das Grundsteuerkataster der Feldgüter in Württemburg.* A. ZELLER.

Jahrbücher für Nationalökonomie und Statistik.

NOVEMBER, 1931. *Die statistische Theorie der Grundrente.* U. RICCI. *Eine pseudoexakte Geldtheorie. Kritik des Appendix in D. H. Robertson's "Banking Policy and the Price Level."* J. NEUBAUER.

DECEMBER, 1931. *Der Goldstandard in der Kreditkrisis.* M. R. WEYERMANN. "*Warten*" *und* "*Kapitaldisposition.*" G. HALM. *Die Produktionsfactoren und ihr Verhaltnis zueinander.* A. KOKKALIS.

JANUARY, 1932. *Ueber die Grundlagen statistischer Forschungsmethoden.* H. PETER. *Ueber Gründungstypen und Gründungsreihen.* K. STING.

Zeitschrift für Nationalökonomie.

DECEMBER, 1931. *A Problem of Dynamics.* J. TINBERGEN. The author seeks to "dynamise" the static Walrasian market by introducing into it the concepts of "economic horizon," "expectance," and "retardation." Time is divided into elementary periods limited by "horizons" of planning, within which the economic subject successively fixes his offer or demand. *Cost Theory and the Monopoly Problem.* E. SCHNEIDER. A new method is suggested, based on the conception of "marginal receipts." *Two Books on Sociology, on the Basis of Marxism.* F. SANDER. *L. von Bortkiewicz.* O. ANDERSON. In commemoration of the economist and statistician. *Changes in the Capital Value of Austrian Share Companies listed on the Vienna Stock Exchange*, 1913–30. O. MORGENSTERN.

Zeitschrift für die gesamte Staatswissenschaft.

NOVEMBER, 1931. *Rudolph Auspitz und Richard Lieben.* O. WEINBERGER. A contribution to the history of the mathematical method in social science. *Steuerbiologie und Statistik.* F. MEISEL. *Wirtschaft und Vergesellschaftung im Nahen Osten.* T. SURANYI-UNGER.

Weltwirtschaftliches Archiv.

JANUARY, 1932. *Von den Wandlungen der Weltwirtschaft in der Nachkriegzeit.* E. SALIN. A contrast of the present crisis with the earlier crises of *Hochkapitalismus.* The first, or English, phase of world economy came to an end with the War; the second phase, the economy of As-if (*Als-ob*) broke down with the suspension of convertibility by the Bank of England. The author considers briefly a world economy of industrial blocks. *Quantitative Economics.* J. ÅKERMANN. Economic science has in turn attempted to answer the following three questions: What determines value? What determines exchange? What determines variation? The author describes the premises of quantitative or time-economics. It is demonstrated that a dynamic analysis must take into account the relation between present and future production or consumption, the relation between economic periods of different length and the relation between non-economic and economic time-factors. Formulas are given for a momentary equilibrium. Finally, the author gives an outline of the consequences of such a dynamic analysis for economic cycle theory. *Studien über die Elastizität des Angebots.* W. LEONTIEF. The "total" elasticity of supply depends on the average elasticity of the ultimate costs and the "*transformation elasticities*" of the different successive stages of production. The latter represents the relation between changes in the *marginal natural costs* (measured "in kind") of production and the total output in a

given stage of production. A statistical analysis of the American iron market (1879–1915) shows how the significant changes in the supply schedules resulted from widely heterogeneous developments in the "partial" elasticities, *i.e.* cost and "transformation" elasticities of the different stages of production. *Die Schemata des stationären Kreislauf bei Böhm-Bawerk und Marx.* F. BURCHARDT. An analysis of the interplay of means of production, raw materials, and labour in the cycle of production of the static state, as an aid to the elucidation of the dynamic problem, and especially of conjuncture-theory. *Sozialpolitik und Weltwirtschaft.* W. WEDDIGEN. Defines the conceptions of national, super-national, and the now dominant international social policy. An investigation follows of the outlook of national social policies on productivity, distinguishing the combination of factors of production, and the reaction of wage and price levels. International policy should aim at principles of organisation, not at an impossible equalisation of national competitive conditions. *Die Wirtschaft der V.S. von Amerika und die Weltwirtschaftskrisis.* H. LEVY. An examination of the credit inflation of the United States, and of the components of the crisis, especially in relation to gold, rationalisation, and speculation in real estate and securities. The United States has by its policy contributed to accentuate the world-crisis. *Die weltwirtschaftliche Stellung des Elsass.* H. LAUFENBURGER. *Die Nachfrage nach ägyptischer Baumwolle und ihre Elastizität.* U. RICCI. The writer has in other places suggested a new theory, according to which the elasticity of demand should be studied in curves of expenditure. He here offers a statistical application, using the figures of BRESCIANI-TURRONI. He develops a new series, that of the outlays which are equal to average-priced products according to price and quantity, and by interpolation of a parabola of the second degree he obtains the outlay curve. From the equation of this curve there is given directly an equation of the demand curve.

De Economist.

JULY–AUGUST, 1931. *Loondaling en algemeen prijsniveau.* G. M. VERRIJN STUART. Comments on the opposite views regarding the effects of lowering wages in shortening the period of disequilibrium in times of depression. As one who holds that a reduction in the wage-level would facilitate recovery, the writer criticises a recent memorandum of the League of Nations, and argues against the view therein expressed that a reduction of wages would lead to "un affaiblissement général de toute la série des valeurs." Wages represent only one price, and it is argued that the remoter effects would be in the direction of a raising rather than a lowering of the general price level. The League of Nations Memorandum also ignores the point that the problem of wages is different in different industries; in particular there is the question of sheltered and unsheltered industries. In some countries (*e.g.* Australia) all wages are presumably too high; in others (*e.g.* Holland), while there is no question of a universal reduction of all wages, the knife should be drastically applied in the case of sheltered industries. Lastly, the article discusses the question of the practicability of wage-reductions, and of the steps which Authority might take to facilitate greater adaptability. *Fondsvorming en sociale verze-*

kering. ANT. VAN GIJN. A commentary on the discussion at a Conference last year on the finance of social insurance. *De economische Structuur eener Socialistische Volkshuishouding.* II. G. MORREAU. A continuation of the discussion of the price policy proper to a socialistic state. The writer discusses at length, with reference to the Laws of Constant, Increasing and Diminishing Cost, the question whether sale of all commodities at cost price, or the sale of some things at a profit and others at a loss, leads to the greatest general satisfaction.

SEPTEMBER, 1931. *De verhouding tusschen mannen- en vrouwenloon.* ANNA POLAK. A detailed discussion, with reference to Dutch conditions, of the relationship between men's and women's wages, supported by particulars relating to different industries. In periods of unemployment there is a tendency to extend the restrictions on women's employment, especially after marriage, on the principle of "fewer women, more men." Elsewhere it is proposed to raise women's wages to the same level as men's in order to discourage their employment. The other tendency is to give women definitely lower wages. A review of the position of women in Government employment shows that even where in theory wages are the same, they are not so in practice. Women are penalised (in Holland) by a deduction imposed on the unmarried which falls on women more than on men, and by the deductions under the old age and widows' pension scheme, from which women can draw less advantage than men. Particulars are given of an inquiry to ascertain what proportion of women in the post office contribute to the support of others; of those who answered the circular (30 per cent.) almost two-thirds helped to maintain others. Particulars of the differences elsewhere are given, and it is suggested that the absence of women from the bodies which enter into collective wage-agreements prejudices the position of women. The argument that equal wages for men and women would be "unjust" is considered with special reference to an article in the *Rotterdamsche Nieuwe Courant.* The conclusion is that like work, of the same kind and of the same value, should receive the same reward, irrespective of sex, as of religious belief or political opinion. *De Duitsche arbeidsgeschillenregeling.* IR. A. W. QUINT. A discussion of the German system of conciliation, established by the Ordinance of 30th October, 1923. The whole system is based on the assumption that the object of the Conciliation Court is to lead to the conclusion of collective agreements. An article by Rudolf Wissell, Minister of Labour, is quoted, to the effect that the principle of the ordinance is that "conciliation is an aid to the conclusion of collective agreements. The final purpose of conciliation, the avoidance of unnecessary labour disputes, is not thereby altered, but the promotion by the State of collective agreements is indicated as the appropriate method for the achievement of this object." The procedure is discussed, with special reference to the position of the chairman where he agrees with neither side. The most characteristic feature of the system is that which gives the State power in certain cases to declare a finding "binding" (*verbindlich*). This is connected in principle with the fundamental relationship of the system to the conclusion of collective agreements, since a period without an agreement cannot be tolerated. The writer discusses in what

respects this power to make a decision *verbindlich* differs from compulsory conciliation, as in Australia. It does not in itself entail penalties; it implies a legal fiction that an agreement has been made. It is noted that this provision is approved by German Trade Unions. An interesting possibility of development is indicated in a recent case (1930) where a lowering of wages was made conditional on a reduction in the price of the product. *De Economische Structuur eener Socialistische Volkshuishouding.* G. MORREAU. Completes the series of articles on the economics of the socialist state, dealing in particular with the choice between various methods of round-about production and with foreign trade. The conclusion is that in principle "a satisfactorily functioning socialist organisation of production is possible."

OCTOBER, 1931. *De rationalisatie en haar invloed op de productie en de verdeeling.* W. J. VAN DE WOESTIJNE. In Europe, rationalisation tends to be concerned with the technical side of production; in America, it is more closely connected with social-economic phenomena. In the main a discussion of the size of business in Holland, from the point of view of men employed, horse-power and capital. The effects are traced in productivity, earning power, wages, etc. The conclusion is that so far as producers are concerned, rationalisation has not yielded the results that might have been anticipated. *De huidige situatie van den Indischen importhandel en de economische beteekenis van de Indische nederzetting en in het proces van winstvorming.* A. E. C. VAN SAARLOS. A discussion of the position of Holland with regard to the trade of the Dutch East Indies. The economic isolation of the tropical colonies is passing away. The factors leading to the change are the increasing industrialisation of the East, the increasing purchasing power of the natives, and the competition of other countries, the position of America being specially underlined. The importance of the Dutch domicile of a business is falling into the background, and a position of greater active independence must be allowed to the Indian establishments. Both with regard to the import and export trade, the Dutch East Indian colonies are appearing as independent powers in the world economy.

NOVEMBER, 1931. *Bankenaufsicht in Deutschland.* KONRAD MELLEROWICZ. An article (in German) emphasising, in the first place, that the world is undergoing a greater change than that represented by the Industrial Revolution. The individualism of Adam Smith rested on a condition of affairs that no longer exists and cannot be recalled. Control is now natural and inevitable. The main part of the article is devoted to a summary and criticism of the Ordinance relating to the Control of Banks, promulgated by the German Chancellor on 19th September last, and the functions of the "Reichskommissar für das Bankgewerbe." *De huidige situatie van den Indischen importhandel, etc.* II. A. E. C. VAN SAARLOS. A continuation of the article in the preceding number, dealing largely with the marketing of articles, and the division of function, profit, etc. between the Dutch firm and the East Indian branches.

Giornale degli Economisti.

OCTOBER, 1931. *Il monopolio dell'intermediario.* L. ROSSI. A mathematical and diagrammatic treatment of that form of mono-

poly which arises under certain conditions when middlemen are enabled to maintain prices at levels which secure them abnormally large profits. *Sul raggiungimento dell' ottima costituzione delle imprese.* A. BREGLIA. Some notes on the optimum size and structure of the industrial unit under conditions of free competition and monopoly respectively. *La natura e il fondamento delle "imposte sugli scambi."* PROFESSOR E. D'ALBERGO contends that a sales or turnover tax should be regarded not as a tax on consumption but as a tax levied on producers and based on the total volume, expressed in value, resulting from the transfer of goods and services—a tax which may fall in whole or in part on consumers, but which cannot be justified by reasons applicable to a tax on consumption. The justification of the sales tax is to be found in the "benefit" theory of taxation; it clearly cannot be found in the theory of "capacity to pay." The volume of transactions affords a good measure of the effective consumption of State services, and a sales tax is therefore a useful addition to a tax on incomes, the size of which cannot be regarded as being proportional to the benefits derived from the protective, developmental and other services of the State.

NOVEMBER, 1931. *Le teorie del valore e l'economia politica.* A. GRAZIADEI. *Sull'interesse comparato alla restrizione dello smercio.* A. CROSARA. *Considerazioni ai margini della capacità "contributiva."* M. PUGLIESE. A consideration of recent tendencies of modern tax systems; for example, the taxation of corporations, bachelors (where the chief motive arises from demographic reasons), and the sales tax, shows that the principle of capacity to pay is not applicable in certain cases. The sales tax, *e.g.*, must be regarded within certain limits as a necessary part of the expenses of production, irrespective of the net income of the concern, following the principle that every branch of economic activity must contribute to the cost of the public services. *La via d'uscita.* G. M. A brief résumé of the resolutions of the last meeting of the International Chambers of Commerce in regard to reparations, war debts, and to the monetary and financial problems of the world.

La Riforma Sociale.

NOVEMBER–DECEMBER, 1931. *Tipi aurei e deflazioni.* V. PORRI. A defence of the view that the main reasons for the breakdown of the gold standard in 1931 were the hoarding and sterilisation of gold by France and the United States, with the resultant deflation and fall in gold prices, and the unwillingness of these creditor countries either to lend capital abroad or to accept payment in goods. *Nuove riflessioni in disordine sulla crisi.* PROFESSOR EINAUDI, surveying the course of the world economic crisis in 1931, makes a penetrating analysis of the causes of England's defection from the gold standard. Amongst other factors it is impossible to absolve English leadership, whether in industry, banking, political life, or the labour movement, from a certain rigidity of temperament and lack of adaptability to new conditions. One of the deeper causes of the crisis throughout the world may be the effect on demand of the decay, under the influence of war-time and post-war inflation, of the old middle classes, and the rise from below of new classes with increased wealth and with extravagant and unstable

standards of expenditure. "Little by little their demand has been satisfied, and satisfaction has brought with it moral and spiritual dissatisfaction and unrest. The rising class realises that it has only enlarged its own vices without having acquired the characteristic qualities of the upper classes. Hence, changed in numbers and composition, after having recognised the emptiness of the things for which it had yearned so long, it is returning to its own standards and resuming its slow march towards a laborious progress which is the fruit of its own struggles and achievements. Now is the moment of the crisis when the 'new' demand for goods yielding a crude and showy satisfaction is contracting, while the 'old' demand is not yet renewed and adapted to the changed technical and social conditions." *L'ordinamento dell'imposta di famiglia nel testo unico per la finanza locale.* F. A. Rèpaci. *Il sistema "a catena" nella "Società per le bonifiche Ferraresi."* E. Giretti. *Florilegio fiscale.* L. Einaudi. *Note su alcune recenti operazioni finanziarie.* R. Levis.

NEW BOOKS

British.

Beaglehole (E.). Property: a study in social psychology. Allen and Unwin. 8½″. Pp. 327. 10*s.* 6*d.*

Bonn (M. J.). Prosperity: myth and reality in American economic life. Martin Hopkinson. 8½″. Pp. 188. 7*s.* 6*d.*

Bonn (Moritz J.). The World Crisis, and the teaching of the Manchester School. Cobden-Sanderson. 8½″. Pp. 30. 1*s.*

Cole (G. D. H.). British Trade and Industry. Macmillan. Pp. 466. 16*s.*

Douglas (C. H.). The Monopoly of Credit. Chapman and Hall. 7½″. Pp. 128. 3*s.* 6*d.*

Einzig (P.). Behind the Scenes of International Finance. Macmillan. 8½″. Pp. 154. 7*s.* 6*d.*

Einzig (P.). International Gold Movements. 2nd ed. Macmillan. 8½″. Pp. 168. 7*s.* 6*d.*

Fang-Fuan. Chinese Labour. P. S. King. 9″. Pp. 183. 10*s.*

Fenelon (A. C.). Transport and Communications. Pitman. 7½″. Pp. 101. 2*s.* 6*d.*

George (M. D.). England in Transition. Routledge. 6″. Pp. 229. 7*s.* 6*d.*

Gregory (T. E.). The Gold Standard and its Future. Methuen. 7½″. Pp. 115. 3*s.* 6*d.*

Gupta (R. B.). Labour and Housing in India. Longmans. 9″. Pp. 260. 13*s.* 6*d.*

Hawtrey (R. G.). The Gold Standard in Theory and Practice. 2nd ed. Longmans, Green. 7¼″. Pp. 168. 3*s.* 6*d.*

Hirst (F. W.). Gladstone as Financier and Economist. Ernest Benn. 9¼″. Pp. xxiv + 327. 15*s.*

HOGBEN (L.). Genetic Principles in Medicine and Social Science. Williams and Norgate. 8½". Pp. 230. 15*s*.

KEYNES (J. M.). Essays in Persuasion. Macmillan. 7¾". Pp. xiii + 376. 10*s*. 6*d*.

LAPIDUS (I.) and OSTROVITYANOV (K.). An Outline of Political Economy. (Political Economy and Soviet Economics.) Martin Lawrence. 9". Pp. 546.

LEYS (N.). A Last Chance in Kenya. Hogarth Press. 8½". Pp. 173. 8*s*. 6*d*.

LONDON SCHOOL OF ECONOMICS. The New Survey of London Life and Labour. Volume II. London Industries, I. P. S. King. 8½". Pp. xiii + 492. 17*s*. 6*d*.

MCCALLUM (E. D.). The Iron and Steel Industry in the United States: a study in industrial organisation. P. S. King. 8½". Pp. 333. 12*s*. 6*d*.

MACKAY (A. L. G.). Economics. Pitman. 8". Pp. 212. 5*s*.

MEHTA (J. K.). The Elements of Economics, mathematically interpreted. Routledge. 8½". Pp. 280. 10*s*. 6*d*.

MOONEY (J. D.). Wages, and the Road ahead. Longmans. 8". Pp. 149. 8*s*. 6*d*.

ORMSBY (H.). France, a regional and economic Geography. Methuen. 8½". Pp. 515. 21*s*.

PETHICK-LAWRENCE (F. W.). The Gold Crisis. Victor Gollancz. 7¼". Pp. 244. 3*s*. 6*d*.

PHILLIPS (H.). Production. Pitman. 7½". Pp. 158. 5*s*.

PRICE (L. L.). A short history of Political Economy in England: 14th edition. With a new section, from Toynbee to Marshall. Methuen. Pp. 315. 6*s*.

RAO (V. K. R. V.). Taxation of Income in India. Calcutta and London: Longmans, Green. Pp. 327. 10*s*. 6*d*.

ROBINSON (E. A. G.). The Structure of Competitive Industry. Nisbet. 7½". Pp. 179. 5*s*.

Royal Institute of International Affairs. Documents on International Affairs. Edited by J. W. WHEELER-BENNETT. Oxford University Press. 9½". Pp. xii + 264. 12*s*. 6*d*.

Royal Institute of International Affairs. Survey of International Affairs, 1930, by A. J. TOYNBEE, assisted by V. M. BOULTER. Oxford University Press. 9½". Pp. 605. 21*s*.

Royal Institute of International Affairs. The International Gold Problem. Collected papers. Oxford University Press. 9½". Pp. 240. 12*s*. 6*d*.

SHANN (E. O. G.) and COPLAND (D. H.). The Battle of the Plans. Documents relating to the Premier's Conference, May 15th to June 11th, 1931. Sydney, N.S.W.: Angus and Robertson (London: Australian Book Co.). 7¼". Pp. 169. 5*s*.

SOUTHWORTH (C.). The French Colonial Venture. P. S. King. 8½". Pp. x + 204 + 7 tables. 12*s*. 6*d*.

STAMP (SIR J. C.). The Present Position of Monetary Science (Ludwig Mond Lecture). Manchester University Press. 9". Pp. 30. 1*s*.

SURANYI-UNGER (T.). Economics in the Twentieth Century: the history of international development. Edited by E. R. A. SELIGMAN. Allen and Unwin. 9". Pp. 397. 21*s*.

TIPPITT (L. H. C.). The Methods of Statistics: an introduction mainly for workers in the biological sciences. Williams and Norgate. 8½". Pp. 222. 15*s*.

TWIGG (H. J.). The Economic Advance of British Co-operation, 1913–31. Manchester: Co-operative Union. 8½". Pp. 104. 2*s*.

WHITE (L. W.) and SHANAHAN (E. W.). The Industrial Revolution and the Economic World of to-day: a study of industrial changes and their effects in Great Britain and of contemporary economic structure. Longmans, Green. 7½". Pp. 376. 6*s*.

American.

BEARDWOOD (A.). Alien Merchants in England 1350 to 1377, their Legal and Economic Position. Cambridge, Mass., Mediæval Academy of America. 10". Pp. 212. $4.

CARPENTER (N.). The Sociology of City Life. Longmans. 8½". Pp. 502. 16*s*.

CLARK (J. M.). The Costs of the World War to the American People. (Economic and Social History of the World War, American Series.) Yale University Press (London, Oxford University Press). 9½". Pp. 316. 21*s*. 6*d*.

EMPOLI (A. DA). Theory of Economic Equilibrium (a study of marginal and ultramarginal phenomena). Chicago: Christiano & Catenacci Publishing Co. 9½". Pp. 184. $3.

Encyclopædia of the Social Sciences. Vol. 5, Danton-Exile. Macmillan. 10¾". Pp. 690. 37*s*. 6*d*.

GARRISON (E. E.). The Riddle of Economics. Macmillan. 8". Pp. 330. $2·50.

HARRIS (S. E.). Monetary Problems of the British Empire. Macmillan. 9¼". Pp. 569. 25*s*.

MYERS (M. G.). The New York Money Market. Vol. I. Origins and Development. Columbia University Press (London, Humphrey Milford). 8¾". Pp. 476. 33*s*. 6*d*.

SHEWHART (W. A.). Economic Control of Quality of Manufactured Product. Macmillan. 9". Pp. 501. 30*s*.

SPATES (T. G.) and RABINOVITCH (G. S.). Unemployment Insurance in Switzerland. New York: Industrial Relations Counselors. 9". Pp. 276.

TAUSSIG (F. W.). Some Aspects of the Tariff Question; an examination of the development of American industries under protection. Third edition, continued to 1930, with the co-operation of H. D. WHITE. Harvard University Press (London, Humphrey Milford). 8½". Pp. 499. 20*s*.

French.

AFTALION (A.). L'or et sa distribution mondiale. Paris, Librairie Dalloz. 9". Pp. 235. 25 *fr*.

Bousquet (G.-H.). Institutes de science économique. Tome II, Les bases du système économique. Paris, Giard. 9″. Pp. 213. 35 *fr.*

Gide (C.) and Oualid (W.). Le bilan de la Guerre pour la France. Paris, Presses Universitaires de France. 10″. Pp. 370. 52 *fr.*

Grand (G.). Sommes-nous riches? le franc d'aujourd'hui (1913–1931), sa valeur. Paris, Giard. 9″. Pp. 143. 20 *fr.*

Haristoy (J.). L'épargne des travailleurs; la spéculation et le néocapitalisme aux États-Unis. Paris, Marcel Giard. 9″. Pp. 427. 60 *fr.*

Perieteanu (A.). Traité de mécanique économique. Paris, Giard. 9″. Pp. 297. 40 *fr.*

Simiand (F.). Le salaire, l'évolution sociale, et la monnaie; essai de théorie expérimentale du salaire. Paris, Félix Alcan. 10″. Pp. xxxii + 586. 80 *fr.*

Weiller (J.). L'influence du change sur le commerce extérieur; étude sur le commerce extérieur en Europe principalement en France 1919–1928. Paris, Marcel Riviere. 1929. 9″. Pp. 259. 30 *fr.*

German.

De Viti De Marco (A.). Grundlehren der Finanzwirtschaft. Tübingen, Mohr. 9½″. Pp. 334. 12.50 *m.*

Gurian (W.). Der Bolschewismus. Einführung in Geschichte und Lehre. Freiburg im Breisgau, Herder & Co. 9″. Pp. 337.

Heymann (H.). Frankreich als Kapitalmacht. Die Ursachen und Folgen der Goldabzüge. Berlin, Eulen Buchhandlung. 9½″. Pp. 43.

Lukas (E.). Weltkrise und deutsche Wirtschaft. Tübingen, Mohr. 9¼″. Pp. 67. 2 *m.*

Ritschl (H.). Gemeinwirtschaft und kapitalistische Marktwirtschaft. Zur Erkenntnis der dualistischen Wirtschaftsordnung. Tübingen, Mohr. 9¼″. Pp. 182. 6 *m.*

Sultan (H.). Art und Mass der Prognose der Steuerwirkungen. Tübingen, Mohr. 9″. Pp. 27. 1.80 *m.*

Sultan (H.). Die Staatseinnahmen. Versuch einer soziologischen Finanztheorie als Teil einer Theorie der politischen Ökonomie. Tübingen, Mohr. 9½″. Pp. 200. 12 *m.*

Tismer (A.). Grenzen der Diskontpolitik (Diskontpolitik und Monopolpreise). Munich und Leipzig, Duncker & Humblot. 9½″. Pp. 160. 8 *m.*

Italian.

Fossati (E.). Le conseguenze finanzarie della guerra. Padova: Cedam. Pp. 423. 50 *lire.*

Mengarini (P.). I caratteri economici della speculazione. Roma. Pp. 114. 12½ *lire.*

NOMI (F.). Razmoneta. Sansepolcro. Pp. 118. 7 *lire.*

PARATORE (G.). La politica del denaro. Vol. I. Genova. Pp. 241. 20 *lire.*

VALENZANI (F.). La circolazione ed il progresso economico. Roma: Luzzatti. Pp. 110. 50 *lire.*

Official.

LEAGUE OF NATIONS.

Memorandum on international trade and balances of payments, 1927–29. Vol. I. Review of world trade. Vol. II. Balances of international payments. Price 4*s*. and 6*s*.
Memorandum on production and trade, 1923 to 1928–29. 4*s*.
Review of world trade, 1930. 2*s*. 6*d*.

THE ECONOMIC JOURNAL

JUNE, 1932

BRITISH FOREIGN INVESTMENTS IN 1930

In the September issue of the Economic Journal of last year I published the results of a survey of British Foreign Investments in 1929. The methods then used were devised to ensure their ready application to all the classes of securities examined, and the hope was expressed that these methods would be applied with but little change to further investigations of the same nature.

The present investigation has been conducted on the same lines and the results published in this article admit of comparison with those obtained for 1929. It has therefore been possible to indicate some of the changes that have taken place in the nature of our overseas investments and the income derived from it. These changes assume a particular importance in the present survey, not only because of their relation to changes in the Balance of Payments, but also because the close of 1929 saw the beginning of a severe slump in the Stock and other markets, accompanied by the liquidation of international and other securities on a large scale.

However, not all the changes that are apparent from the figures contained in the present article can be ascribed to these factors. Owing to the increasing amount of material that is being so kindly placed at my disposal in connection with these investigations, and also to some differences that unavoidably occur in the types of samples used from year to year, some of these changes really represent a growth in our knowledge of our overseas investments, and some are the results of slight differences in classification. Nevertheless, these considerations do not seriously impair the conclusions that are to be drawn from the results obtained.

Objects and Field of Inquiry

As in the previous inquiry, the securities examined here in detail include:

1. The bonds and stocks of Foreign and Colonial Governments and Municipalities, interest payments on which are made in London.
2. Securities of all British companies, classified in the Stock Exchange Official Intelligence, operating abroad and registered in the United Kingdom.
3. Securities of companies classified in the Stock Exchange Official Intelligence, both registered and operating abroad.

In the previous inquiry, of the securities in Group 3, only those in which dealings are permitted were subject to detailed examination. The present survey has been extended to include the whole of the loan and share capital of American railways, in addition to other foreign securities known to be held in some degree by British residents. Moreover, some care has been exercised in obtaining an approximate estimate of the British holdings of securities issued and dealt in entirely abroad, and of individual private investments, although these forms of investment are not susceptible to detailed investigation.

The main results obtained as regards the securities examined are estimates for 1930 of:

(*a*) the total *nominal* amount of British capital invested overseas outstanding at December 31st, 1930;
(*b*) the income derived therefrom during that year;
(*c*) the volume of repayment and
(*d*) the "new money" saved for overseas investment, this being regarded as the British subscription to new issues less the sum repaid through sinking funds and maturities during that year.

In addition to an outline of the changes that these figures indicate, a tentative estimate is also made of the income derived from these investments during 1931, and its relation to the Balance of Payments is discussed.

The results contained here have been arrived at by the use of information supplied to me by some seventy banks and over a thousand companies, and I should like again to express my appreciation of the helpful spirit they have shown, and of their

ready assistance, without which these inquiries could not be continued.

Group 1.

Foreign and Colonial Government and Municipality Stocks and Bonds.

The method applied to this group of securities was discussed in some detail in the Economic Journal of June 1930. Particulars are obtained from banks and issuing houses in respect of all foreign and colonial loans, interest on which is paid in London, regarding (*a*) the total interest paid; (*b*) the proportion of this interest paid free of British income tax, and (*c*) the sinking fund payment made in the United Kingdom. For further information as to the manner in which these particulars were used in arriving at the figures below, reference should be made to the above-mentioned article. The results obtained for 1930 are summarised in the following tables and compared with the corresponding results for 1928 and 1929.

Table I

Showing the proportion in 1930 *of the total Interest paid in London, tax deducted, on certain classes of Investments, and a comparison with the position for* 1928 *and* 1929.

Type of Security.	1928.	1929.	1930.
Dominion and Provincial Government Securities	90·2%	90·2%	90·4%
Dominion and Colonial Municipality Stocks	91·1	91·4	91·9
Foreign Government Bonds and Stocks .	54·8	53·6	55·0
Foreign Municipality Stocks . . .	76·3	76·6	74·6

As explained in previous articles, the high percentage of interest paid tax free on Foreign Government Bonds is in large measure due to payments made in London in respect of the foreign *tranches* of international issues, as well as of sterling issues placed abroad. In the case of most of these securities coupons are cashable not only in London, but also abroad at the option of the holder, and hence the total interest paid in London on Foreign Government Bonds, as well as the proportions paid tax free and tax deducted, are liable to fluctuations from year to year that are not necessarily to be explained by the transfer of securities from British to foreign ownership or vice versa.

Table II

Showing the nominal amount of British Capital outstanding invested in 1930 *in certain classes of Securities, the Income derived therefrom, and comparison with similar results for* 1928 *and* 1929.

(£000's.)

A. Capital.[1]

Type of Security.	1928.	1929.	1930.
Colonial Governments . . .	944,497	970,551	985,532
Colonial Municipalities . . .	91,453	90,887	94,965
Foreign Governments . . .	324,008	312,792	320,112
Foreign Municipalities . . .	40,491	38,195	36,730
Total . . .	1,400,449	1,412,425	1,437,339

B. Income.

	1928.	1929.	1930.
Colonial Governments	39,770	41,994	42,490
Colonial Municipalities	4,050	4,422	4,388
Foreign Governments	16,048	16,205	15,793
Foreign Municipalities	2,028	2,040	1,995
Total	61,896	64,661	64,666

C. Repayment.[2]

	1928.	1929.	1930.
Colonial Governments . . .	4,410	17,782	8,288
Colonial Municipalities . . .	860	2,502	1,531
Foreign Governments . . .	8,277	9,404	9,032
Foreign Municipalities . . .	2,029	737	830
Total . . .	15,576	30,425	19,681

[1] The figures for Capital include British subscription to issues floated in the year under consideration, but on which a full year's interest would not be due until the succeeding year.

[2] Repayment as used in the above table excludes stock converted.

The British subscription to new issues of this class floated in 1930, *less* repayment through the operation of sinking funds and maturities amounted to £58 million. Nevertheless, Table A shows that British capital increased from £1,412 million at December 1929 to £1,437 million at December 1930, a net addition of only £25 million. To some extent this is explained by the comparative weakness of sterling during 1930, resulting in an encashment abroad of a greater number of coupons during that year. But

in the main the repurchase by foreign nationals of the bonds and stocks of their Governments is responsible for this difference.

During the three-year period covered by the above table, British investments have substantially increased only in the securities of Colonial Governments, the actual increase being some £41 million between December 1928 and December 1930. This is in line with the noticeable tendency of British investors to show a stronger desire to invest their funds in the Colonies than in the bonds of Foreign Governments. Indeed, whereas the latter on the whole are not being renewed as they mature, repayments of Colonial loans are in the main effected by conversion or by the issue of further loans, which find a ready market in the United Kingdom.

It will be observed that in spite of an increase of £25 million in 1930 of British capital invested in the group of securities considered above, the interest paid in London during 1930 remained at practically the same figure as that for 1929. The explanation is that the issues responsible for this increase in capital in 1930 were almost in every case made late in the year, and consequently bore little interest during that year. In addition, repayments in 1929 were exceptionally heavy, viz. £30 million as compared with £16 million in 1928 and £20 million in 1930. These repayments are obviously responsible for a greater decline of interest in the succeeding year than in the year in which they are made. For these reasons no appreciable increase in income was recorded in 1930.

The securities examined above, covering well over one-third of all British overseas investments, constitute the most stable form of these investments. Apart from the evidence of a gradual repurchase by foreign nationals of the bonds of their Governments, economic depression and weakness in the Stock Markets had but little effect on the amount of British capital invested in this form or on the income derived from it during 1930. It is true that during 1931 some defaults did occur in payments due in respect of the service of these loans, but, as figures given later on will show, the reduction in income during 1931 from this cause was inconsiderable, and not to be compared with the heavy reductions that occurred in other forms of investment.

British Commercial Capital Abroad.

The method used in the analysis of this important body of British overseas investments was explained in some detail in

the ECONOMIC JOURNAL of September last. The field covered comprises the securities of roughly 3,000 companies operating abroad, and the results obtained are based on sample information of considerable magnitude. As stated at the outset, however, these samples are not identical in all respects with those used in the previous inquiry, and in addition, as regards dollar and other foreign securities, considerably more information has been available for 1930. Consequently, the changes disclosed by comparison between the two years are approximate, and do not strictly reflect actual movements.[1]

GROUP 2.

British Companies Operating Abroad.

For the purpose of this inquiry a company is taken to be operating abroad if its main plant and equipment are situated abroad. A number of companies, however, particularly in the group classed as "Commercial and Industrial," do extensive business both at home and abroad and larger companies that come under this category have been covered by the present investigations. In the case of shipping, however, account has been taken only of companies whose trading is almost entirely between ports in foreign waters. It is, of course, true that of the earnings of the vast body of British capital sunk in the shipping trade between the U.K. and the rest of the world, a considerable proportion is derived from abroad. Since, however, no part of the capital employed by these companies is actually spent abroad, the services they render can be more conveniently regarded as an export. Consequently it is preferable not to regard this capital as a foreign investment.

From the figures on pp. 183–4 no substantial change is apparent in the *total* nominal amount of British capital invested in the securities of the companies covered by the Tables on pp. 183–4 at the close of 1930, although the total does show a small increase of about £18 million. There are, however, substantial changes, particularly in the holdings of share capital, in some of the groups set out in these tables.

In the Commercial and Industrial Group, British capital increased by over £6 million to £62 million in 1930, due largely to new issues made in 1930, mainly in connection with the flotation of new companies. In the Financial, Land and Invest-

[1] For a full discussion of the field covered, of the method used and its limitations, the above-mentioned article may be consulted.

ment Group the decline from £94 million to £86 million is largely the result of the transference of a number of investment trusts to other groups in the more recent classification adopted in the Stock Exchange Official Intelligence. In the Mining Group the decline in holdings by £8 to £66 million in 1930 arose from the liquidation of a large number of unprofitable enterprises in that group. In the Oil Group an increase in the capitalisation of some of the companies combined with a decline in the percentage held by foreigners was responsible for an increase of £12 million in British holdings.

The most significant feature of the table dealing with Share Capital is, of course, the general reduction in earnings reflected in the reduced dividends paid in almost every section. The average rate of dividend paid on the whole of the Share

TABLE III

A.

Showing the nominal amount of British Capital invested in 1929 *and* 1930 *in Companies operating abroad and registered in the U.K., the Income derived from it, and the volume of Repayments.*

(£000's.)

Type of Company.	1929.		1930.	
	Share Capital.	Dividends.	Share Capital.	Dividends.
Dominion and Colonial Rails	1,645	20	1,381	27
Indian Rails	23,088	1,980	20,991	2,052
American Rails	800	37	800	37
Foreign Rails	212,226	11,450	220,202	10,257
Banks and Discount Companies	30,368	3,248	26,591	3,431
Breweries	4,992	395	4,755	329
Canals and Docks	776	—	1,377	—
Commercial and Industrial	55,868	4,025	62,249	3,699
Electric Lighting and Power	8,886	888	7,905	569
Financial, Land and Investment	94,392	7,333	85,604	4,230
Gas	8,565	716	8,812	1,017
Iron, Coal and Steel	6,108	266	8,018	474
Mines	74,354	6,950	66,023	4,731
Nitrates	6,449	266	5,969	262
Oil	99,626	14,600	112,010	16,997
Rubber	82,223	6,549	84,245	4,465
Shipping	11,880	782	15,154	720
Tea and Coffee	37,904	4,662	39,542	2,907
Telegraphs and Telephones	23,626	2,726	23,940	2,041
Tramways and Omnibus	14,382	488	14,948	382
Waterworks	3,447	293	4,606	339
Total	801,605	67,674	815,122	58,966

TABLE III—*continued*

B.

Type of Company.	1929. Loan Capital.	1929. Interest.	1929. Repayment.	1930. Loan Capital.	1930. Interest.	1930. Repayment.
Dom. and Col. Rails	22,636	1,157	822	26,927	1,416	52
Indian Rails	48,150	1,828	959	42,867	1,612	5,050
Indian Rail Annuities	26,187	1,296	1,114	25,816	1,284	1,126
American Rails [1]	800	32	--	800	32	--
Foreign Rails	166,518	7,841	593	170,589	7,152	447
Breweries	911	32	--	835	40	—
Canals and Docks	1,000	60	467	2,237	103	7
Commercial and Industrial	21,037	1,163	489	20,638	1,049	627
Electric Light and Power	7,542	480	21	6,112	393	55
Financial, Land and Investment	29,363	1,201	1,566	25,162	1,056	386
Gas	2,339	95	89	2,150	89	236
Iron, Coal and Steel	1,580	107	38	2,284	105	40
Mines	3,393	225	236	5,731	257	53
Nitrates	2,497	179	210	2,440	122	308
Oil	13,224	647	798	14,347	707	505
Rubber	5,712	370	59	5,849	368	73
Shipping	4,593	240	294	6,856	372	188
Tea and Coffee	2,668	161	22	2,561	135	24
Telegraphs and Telephones	4,540	270	158	4,560	265	38
Tramways and Omnibus	19,070	850	551	18,860	836	225
Waterworks	1,446	75	2	2,021	107	145
Total	385,206	18,309	8,488	389,642	17,500	9,555

	1929.	1930.
Share Capital	801,605	815,122
Loan Capital	385,206	389,642
Total	1,186,811	1,204,764

[1] The bulk of British capital invested in American Rails appears in Tables IV and V. The figures appearing above represent the capital of Atlantic Leased Lines, Ltd., a company registered in London owning the shares of a United States railway.

Capital declined from 8·4 per cent. in 1929 to 7·1 per cent. in 1930. This decline reflects only a part of the decrease in earnings during that year, for the reason that dividends distributed in 1930 were, of course, largely based upon the earnings of 1929, a comparatively good year. The full effect on dividends was experienced during 1931, and an estimate is made later on of the income accruing from these investments during that year.

In important sections of the above table, rates of dividends declined between 1929 and 1930 from 5·4 per cent. to 4·7 per cent. in Foreign Rails, 7·2 per cent. to 5·9 per cent. in the Com-

mercial and Industrial Group, 7·8 per cent. to 4·9 per cent. in Financial, Land and Investment, 9·3 per cent. to 7·7 per cent. in Mining, and from 8·0 per cent. to 5·3 per cent. in Rubber. A striking contrast, however, was made by the results for Oil shares, dividend rates increasing from 14·7 per cent. to 15·2 per cent. Elsewhere the decline was general, except for Indian Rails and Banks and Discount Companies.

Table III, B, dealing with Loan Capital, shows that British holdings remained substantially unchanged at the close of 1930. Among Indian Rails, British Loan Capital declined by over £5 million as a result of the sale of H.E.H. the Nizam's Guaranteed State Railways and the repayment of the company's stockholders. New loans raised in 1930 increased British holdings of Mining debentures by £3 million, and among Foreign Rails new issues raised holdings of debenture stock by £10 million. The actual increase for Foreign Rails shown in the table is only £4 million, some £6 million of income stock having been reclassified as Share Capital in the figures for 1930.

The average rate of interest paid on British capital invested in these debentures declined from 4·8 per cent. in 1929 to 4·5 per cent. in 1930, a decline caused mainly by the default in the payment of certain Foreign Railway debenture stock. The result was a decline in total interest paid in 1930 of about £800,000.

Repayment of capital amounted in 1930 to £9½ million, as compared with £8½ in the previous year. The heavy repayment appearing under Indian Rails was partly due to the repayment of a large amount of Share Capital.

	(£000's.)	
	1929.	1930.
Dividends on Share Capital .	67,674	58,966
Interest on Loan Capital .	18,309	17,500
	85,983	76,466
Repayment of Capital . .	8,488	9,555

These figures show that the total income derived from British investments in the securities examined in Group 2 was reduced from £85,983,000 in 1929 to £76,466,000 in 1930, a reduction of over £9 million, whilst the rate of income declined from 7·25 per cent. to 6·35 per cent.

The securities examined in Group 2 constitute the main body of commercial capital directly under British control. In view of their greater knowledge of these companies, and the greater

confidence reposed in enterprises controlled by British management, it is only natural that in a period of general liquidation, British investors would be less likely to dispose of holdings in these securities than in the more speculative shares of foreign companies. This observation derives support from the circumstance that owing to the heavy rate of income tax payable by British companies, the foreigner has little inducement to acquire large holdings of shares of these companies. Thus, in spite of economic depression accompanied by large reductions in dividends, no decline is apparent in the nominal British holdings of capital in this group of securities.

GROUP 3.

Companies Registered Abroad.

The securities examined under this heading are extremely miscellaneous in character, and the type of company to which they belong varies from the company which is virtually British owned and controlled, to the company in which British interests are insignificant. Owing to the prominence of bearer securities in this group, it has not been possible to obtain very precise results for a few sections, notably Foreign Rails, but the larger amount of material available this year has improved our knowledge of British investments in these sections, and thus the results for 1930 have attained a still greater degree of accuracy.

The field of investment covered comprises all securities of companies registered abroad in which dealings are allowed in the United Kingdom. An exception to this rule was made for 1930 in the case of American Railway securities, respecting which, owing to the data now available, it has been possible to obtain results for the whole of the loan and share capital of the American Railways. For information regarding the technique adopted in dealing with the variety of securities examined below, the article of September 1931 may be referred to.

Between the end of 1929 and the end of 1930, British nominal capital in this class of investment apparently declined by £45 million, accompanied by a reduction of income of over £10 million. Part of the difference between the two results, however, is explained by the smaller estimate of British holdings in the groups left blank for 1930, justified by the additional material available for that year, but the larger part of these declines does correspond to the actual conditions of 1930.

In individual sections of the table the most important decline took place in Mining shares. This decline, which was roughly

TABLE IV

Showing the nominal amount of British Share Capital of Companies registered abroad at December 1930, *the Income derived therefrom and a comparison with the position for the previous year.*

(£000's.)

Type of Company.	1929. Share Capital.	1929. Dividends.	1930. Share Capital.	1930. Dividends
Dominion and Colonial Rails	55,287	5,501	57,024	4,926
American Rails	9,671	796	14,599	1,092
Foreign Rails [1]	?	?	?	?
Banks & Discount Companies	29,982	2,532	25,999	2,115
Breweries [1]	?	?	1,266	--
Canals and Docks	1,742	1,175	1,616	1,471
Commercial and Industrial	70,648	7,348	73,788	7,003
Electric Lighting and Power	11,820	600	11,042	750
Financial, Land and Investment	24,416	1,067	24,005	952
Gas [1]	?	?	?	?
Iron, Coal and Steel	31,905	1,669	28,237	1,425
Mines	82,937	13,523	70,558	7,339
Oil	23,321	634	24,520	999
Shipping	4,183	228	4,183	231
Telegraphs and Telephones [1]	?	?	4,761	342
Tramways and Omnibus	10,108	657	9,500	501
Waterworks [1]	?	?	?	?
Total	356,020	35,730	351,098	29,146

[1] In the groups for which precise results are not obtainable, estimates were based on the average percentage of the securities owned in the U.K. For five of such groups the 1929 estimates were £79,982,000 capital and £6,267,000 dividends, increasing the totals obtained for 1929 to £436,002,000 capital and £41,997,000 dividends. The corresponding estimates for the three groups in 1930 are £39,965,000 capital and £2,547,000 dividends, increasing the totals obtained for that year to £391,063,000 capital and £31,693,000 dividends.

£12 million, represents in the main sales to foreigners, affording striking evidence of the growing popularity in recent years of these shares abroad, particularly in France. Other important changes were declines in British holdings by £4 million in Banks and Discount Companies and £3 million in Iron, Coal and Steel, while British holdings increased by £4 million in the miscellaneous group of securities in the Commercial and Industrial section. It will also be noted that in the new estimates covering the whole of the share capital of American Railways, British holdings at December 1930 amounted to over £14½ million, although substantial sales were known to have taken place.

The most important feature of the above table, as in the

previous table dealing with British companies, is the conspicuous decline in dividends distributed in 1930. The average rate of dividend declined from 9·6 per cent. to 8·1 per cent., as compared with a decline in the case of British companies operating abroad from 8·4 per cent. to 7·1 per cent., a decrease of roughly the same dimensions. In important sections of this table, dividends decreased from 16·3 per cent. to 10·5 per cent. in Mines, 9·9 per cent. to 8·6 per cent. in Colonial Rails, 8·5 per cent. to 8·1 per cent. in Banks and Discount Companies and from 10·4 per cent. to 9·6 per cent. in Commercial and Industrial. Elsewhere income was fairly well maintained, the decline being less general than in the case of Group 2, whilst there were actual increases in dividend rates among Oils, Electric Light and Power Companies, and Canals and Docks.

TABLE V

Showing the nominal amount of British Capital outstanding at December 1930, invested in the debentures of Companies registered and operating abroad, the Income derived therefrom, the volume of Repayments and a comparison with the position in the preceding year.

(£000's.)

Type of Company.	1929.			1930.		
	Loan Capital.	Interest.	Repayment.	Loan Capital.	Interest.	Repayment.
Colonial Rails	161,127	6,491	626	160,516	6,531	3,344
American Rails	18,519	615	430	12,037	511	150
Foreign Rails	75,709	4,078	888	69,389	3,508	935
Banks and Discount Companies	12,999	807	216	18,631	1,175	313
Breweries	40	2	—	28	1	—
Canals and Docks	2,436	52	—	2,473	21	1
Commercial and Industrial	21,464	1,646	1,315	24,807	1,875	789
Electric Light and Power	31,002	1,724	1,144	31,483	1,754	915
Finance, Land and Investment	29,965	1,603	1,176	27,962	1,536	760
Gas	392	23	66	—	—	—
Iron, Coal and Steel	8,893	635	906	8,748	536	182
Mines	4,085	246	1,048	3,561	202	223
Nitrates	3,195	223	137	3,125	219	144
Oil	—	—	202	—	—	207
Shipping	2,445	155	51	1,037	145	1,305
Telegraphs and Telephones	17,768	840	387	14,039	650	304
Tramways and Omnibus	10,794	533	1,001	11,831	598	125
Waterworks	1,953	51	—	1,804	88	—
Total	402,786	19,724	9,593	391,471	19,350	9,697

Little net change is observable as between the two years examined in the bonds and debenture stocks of companies registered abroad, either in British holdings, interest received or the volume of repayments. In individual sections of the table, the sale of at least £6½ million American Railway Bonds is traceable, whilst new loans raised in 1930 increased British holdings among the debentures of Banks and Discount Companies by some £6 million. The decline in Foreign Railway Bonds was due to the exchange of certain Railway securities into shares of a financial company.

Interest on these securities remained practically unchanged at £19½ million in 1930, default being negligible during that year. This is rather surprising in view of the measure of default previously noted in interest payment among certain British companies in 1930. Repayments, which were also unchanged at £9½ million, include repayment of Preference capital in the Oil Group.

	1929.	1930.
	£	£
Share Capital	436,002,000	391,063,000
Loan Capital	402,786,000	391,471,000
	£838,788,000	£782,534,000

	1929.	1930.
Income from Share Capital .	41,997,000	31,693,000
Income from Loan Capital .	19,724,000	19,350,000
	£61,721,000	£51,043,000

The above figures disclose declines of £56 million in British capital and £10½ million in income between the estimates for 1929 and 1930 as regards securities of companies registered and operating abroad. As has already been pointed out, this must not be taken as a strictly accurate interpretation of the actual changes that took place between 1929 and 1930, since in part the smaller figures for 1930 are due to supplementary information rendered available for 1930. But even allowing for this factor, it is evident that in 1930 the continuous growth of British investment in this class of security received a severe check.

The following tables summarise the results obtained for the three groups of securities analysed in detail.

The 1930 aggregate of British capital invested in the securities examined is £13 million less than the figure obtained for 1929. This suggests that the decline in our investments overseas through sale of securities and other sources in 1930 was not entirely offset

Table VI

Showing the nominal amount of British Capital invested Overseas in the classes of Securities examined, the Income derived therefrom, and the volume of Repayments in 1929 *and* 1930.

(£000's.)

A. 1929.

	Capital.	Income.	Repayment.
1. Foreign and Colonial Governments and Municipalities . .	1,412,425	64,661	30,425
2. Companies registered in the U.K. and operating abroad . .	1,186,811	85,983	8,488
3. Companies registered and operating abroad	838,788	61,721	9,593
Total . . .	3,438,024	212,365	48,506

B. 1930.

	Capital.	Income.	Repayment.
1. Foreign and Colonial Governments and Municipalities . .	1,437,339	64,666	19,681
2. Companies registered in the U.K. and operating abroad . .	1,204,764	76,466	9,555
3. Companies registered and operating abroad	782,534	51,043	9,697
Total . . .	3,424,637	192,175	38,933

by increased investments in that year through new overseas issues or purchase of existing securities. Further comment on this is made later.

Income derived from these investments showed a decline of £20 million in 1930, a small part of which is explained by the increased accuracy of the results for this year. The average rate of income on the whole of the nominal capital declined from 6·17 per cent. in 1929 to 5·61 per cent. in 1930, a decrease the smallness of which is due to the fact that almost two-thirds of these investments take the form of fixed interest securities, among which there was little default in 1930.

Repayments, which were not quite so heavy in 1930, amounted to £39 million as compared with £48½ million in 1929. This decrease was due to the absence in 1930 of the heavy maturities that occurred in Colonial Government loans in 1929.

The above results cover the main field of British investment overseas. Attention has, however, also been given to investment undertaken by individuals privately, and in the foreign

securities not dealt in in the United Kingdom. Of the British holdings in securities not quoted or dealt in on the London Stock Exchange, the largest contribution is made by Investment Trusts and Insurance Companies. Inquiries relating to the investments of these bodies indicate that at the end of 1930 the amount invested by them in the dollar securities not covered in the above tables did not exceed £130 million. In the previous survey a figure of £300 million was taken to embrace British holdings in foreign securities not dealt in here and other forms of British Investment Overseas not examined in detail. It is true that since the close of 1929 some of these holdings were disposed of, but, on the other hand, substantial purchases were also known to have been made in 1930. In view of this and of other considerations, the figure of £300 million is retained for 1930.

The effect of this is to increase the nominal amount of British capital arrived at for 1930 to £3,724,000,000, yielding an income of £209,005,000, covering the whole field of British Investments abroad. The corresponding figures for 1929 were £3,738 million capital, yielding £231 million income.

Income from Foreign Investments and the Balance of Payments.

The surveys which I have made during the past few years deal entirely with investments overseas, and no attention has been given to the problem of countervailing investment by foreigners in Great Britain. Consequently, the results arrived at here are not *net* figures, either as regards the long-term creditor position of Great Britain or as regards the income arising from her long-term investments. In applying these figures in an estimate of the Balance of Payments, considerable caution must be exercised. For, apart from the deduction in respect of foreign investment in the United Kingdom, there are also other modifications to be made.

In respect of British companies abroad, the calculated income has been derived from dividend payments, a basis which does not necessarily correspond with the net earnings of these companies abroad, since (*a*) dividends distributed tend to reflect the earnings of the previous year, and (*b*) they may be considerably less than earnings in a good year, or be paid largely out of accumulated reserves in a bad year. Furthermore, an addition must be made in respect of companies maintaining expensive head offices here and paying salaries to directors resident in Great Britain. Finally, for the purpose of the Balance of Payments as estimated by the Board of Trade, the shipping income included under

foreign investments must be deducted, since this is presumably already included in their estimate of the Net National Shipping Income.

The above reservations should be borne in mind in a study of the following table, dealing with the *gross* income from our foreign investments during the past three years.

Table VII

Showing the Income derived from British Investments during 1929 *and* 1930, *with a tentative estimate for* 1913.

(£000's.)

	1929.	1930.	1931.
1. Foreign and Colonial Governments and Municipalities	64,661	64,666	63,883
2. British Companies registered in the U.K. and operating abroad . . .	85,983	76,466	52,707
3. Companies registered and operating abroad	61,721	51,043	39,339
4. Other investments not covered by the above	18,510	16,830	13,632
Total	230,875	209,005	169,561

The tentative estimate of £169½ million for 1931 is based on British holdings of investments as at December 1930, and does not take account of changes caused by Britain's abandonment of the gold standard. Changes occurring in the last quarter of the year would in any case have had little influence.

The above table shows that during 1931 income dropped by nearly £40 million from the previous year and by £61 million as compared with 1929. Among British companies, the severest declines in 1931 occurred in Foreign Rails, Mining, and Rubber, dividends being reduced by over one-half in the two former groups, whilst Rubber dividends were practically wiped out. In the case of foreign companies the declines in 1931, though heavy, were not quite so severe, shares in the Commercial and Industrial Group and again in Mining suffering the greatest loss in dividends.

The prospect for 1932 is not encouraging, since dividends paid during this year will largely reflect the conditions of 1931, a year of almost unrelieved trade depression. In addition, there is also a substantial reduction to be made in respect of default among Foreign Government and other bonds. On the other hand, these circumstances will to some extent be countered by

the lower level of sterling, in reducing the foreign burden of indebtedness and increasing earnings by raising the selling prices in terms of sterling of the products of British and other companies operating abroad.

Foreign Investments and the Position of Sterling.

The heavy decline in our foreign investment income between 1929 and 1931 was, of course, a factor of the highest importance in turning the Balance of Payment against Great Britain. This balance, substantially adverse in 1931, was already becoming so in 1930, but the effect of reduced income on the exchange was partially obscured by capital movements, and in particular by the repatriation of long-term assets. It must be emphasised, however, that, contrary to a large body of opinion, the extent to which British foreign investments can be used to protect the sterling exchange is limited. The largest part of the £3,724 million arrived at for 1930 is invested in the sterling bonds of Foreign and Colonial Governments and in the securities of British companies operating abroad; securities which outside the United Kingdom have only a limited market, particularly during a period of sterling depreciation, and which therefore could not be used for the purpose of securing foreign exchange. There remain, therefore, the securities of companies registered abroad and the dollar holdings of Investment Trusts and Insurance Companies. Of the former, British investment in sterling bonds is again high, and it is a widespread practice among Insurance Companies to keep foreign assets against foreign liabilities maturing from year to year.

Careful examination goes to show that in all not more than £550 million, or less than one-sixth of the total investments abroad, could be used for this purpose, and indeed of these securities a large proportion has only a narrow market outside London. Finally, against this must be set not only the volume of British domestic securities held by foreigners, but also the substantial body of investment by foreigners in overseas sterling loans and in the securities of British companies operating abroad, as shown by Table VIII.

This block of £481 million of securities owned outside the U.K., taken in conjunction with their investment in War Loan and other domestic issues, is liable if withdrawn to constitute a drain on sterling against which the sale of foreign assets could not easily prevail. Thus the extent to which our foreign investments can be used to protect the sterling exchange is limited.

TABLE VIII

Foreign and Empire holdings of Overseas Sterling Loans and of Shares and Debentures of British Companies abroad in 1930.

	(£000's.)
Colonial Government and Municipalities	116,626
Foreign Government and Municipalities	276,306
Indian Rails	191
Colonial Rails	427
Foreign Rails	4,721
Banks and Discount Companies	9,901
Breweries	183
Canals and Docks	—
Commercial and Industrial	8,901
Electric Lighting and Power	4,292
Financial, Land and Investment	5,586
Gas	1,254
Iron, Coal and Steel	1,133
Mines	26,576
Nitrates	6,989
Oil	6,006
Rubber	1,554
Shipping	347
Tea and Coffee	309
Telegraphs and Telephones	1,279
Tramways and Omnibus	7,484
Waterworks	1,111
Total	481,176

New Overseas Issues in 1930.

According to the Midland Bank figures, money subscribed for overseas issues in London in 1930 was £108,804,000. The figures for repayment in Table II include certain sums repaid by new issues raised in 1930, and the inclusion of these sums brings the Midland Bank total to £114,120,000. Of this total, from information available, it appears that £97,590,000 was subscribed by U.K. investors. Deducting from this the repayment of £38,933,000 automatically available for reinvestment in 1930, the "new money" saved according to the definition given at the beginning of the article was £58,657,000 in 1930. This compares with the figures of previous years as follows:

New Money Invested Abroad (£000,000).

1927	134
1928	108
1929	47
1930	59

These figures, of course, do not take account of the money absorbed in the net purchase of existing securities, or invested in new issues made entirely abroad, and therefore do not present an adequate picture of the net investment overseas in any year.

The improvement shown in the figure for 1930 over the previous figure is apparent only. For in 1930, in spite of the £59 million "new money" raised for overseas investment, the total figure for British nominal capital abroad declined by £13 million. Thus even when allowance is made for the fact that a part of this decline is attributable to a greater knowledge of these investments in 1930, and a further part to the liquidation of unprofitable enterprises, it is difficult to resist the conclusion that during the year there was a net sale of British investments abroad of something like £35 million.

The results contained in the present article reveal that in 1930 not only did we fail to maintain the total amount of our foreign investments, probably for the first time in over fifty years, but also that the income derived from these investments declined considerably. Nor does the immediate future hold out prospects of a reversal of these downward tendencies. Defaults on foreign bonds are increasing and dividends on companies operating abroad are continually declining. In this regard, apart from the fact that there is for the time being no favourable balance from which investments could be made abroad, it has to be recognised that in the final analysis it is the public who decide where money is to be invested, and to-day the tendency is towards the employment of capital at home rather than abroad, while the further repatriation of capital is not unlikely.

On the other hand, it should be borne in mind that the decline of 26·4 per cent., as herein calculated, in our income from foreign investments between 1929 and 1931 was accompanied by and indeed was mainly the result of a fall in world prices to the extent of 23·7 per cent. in the same period. Measured, therefore, in terms of goods received, our real income has not suffered to the same degree, and it is clear that its restoration to its former level in terms of money is bound up with the recovery in world prices.

ROBERT KINDERSLEY

THE PRESSURE OF POPULATION IN THE FAR EAST

THE eastern Asiatic region which is still generally known as the Far East, though the most important approaches to it are now across the Pacific Ocean, has long been recognised as an area of intense population pressure. Recent economic developments, especially since the war of 1914–18, seem to indicate the emergence of a new trading "region," comprising the countries from India to Japan.[1] In these countries there is not only a vast and increasing population,[2] but also a great variety of resources which are being exploited with rapidly increasing efficiency. So many of the countries are still in various stages of colonial tutelage that it is too soon to look for any very rapid development of inter-trading based upon national economic organisation. The vigorous economic leadership of Japan, however, has already stimulated a substantial trade. Japan draws cotton from India and China, iron from China, Malaya and the Philippines, and varied resources, both agricultural and mineral, from Manchuria. Even Australia and New Zealand are drawn in by the growing export of wool to Japan and the prospects of iron ore importation from Western

[1] See successive issues of the League of Nations' *Review of World Trade*. The tendency since 1925 for Europe to regain its share of world trade is indicative of the misdirection of capital and goods which was one of the symptoms of maladjustment leading to the present crisis.

[2] Statistical measurements are naturally difficult, but the following approximate calculations will serve to indicate the order of magnitude of the increases.

Area.	Authority.	Population (thousands). 1920 (21).	Population (thousands). 1930 (31).	Decennial Rate of Increase.
China	Chinese Maritime Customs	428,000	452,000	5·6
Japan, Proper	Official	55,963	64,448	15·1
Japan, Dependencies	,,	22,120	27,331	23·6
India	,,	318,886	352,936	10·6
Siam	,,	9,207	11,506	25·0
Indo-China	,,	18,860	21,500	18·0
British Malaya	,,	3,333	4,352	30·6
Netherlands East Indies	,,	49,351	60,732	23·1
Philippines	,,	10,567	12,251	15·9

Australia.[1] In return, Japanese shipping services and cheap cottons and other manufactures are widely used. This growing trade is a far more realistic development than the vague notion of a Pan-Asiatic political movement which finds little response in Japan.

The beginnings of such trade, the marked tendency to increasing population, indications of wealth accumulating in the hands both of nationals and of resident (especially Chinese) traders,[2] are evidence, equally with nationalist movements and international conflict, of new life stirring in this densely populated region. Such evidence raises interesting questions, especially concerning the relation of population growth to increased efficiency and the promise of greater individual prosperity. Is the tendency to increasing numbers the result of greater productivity? If so, whence came the stimulus? Is it possible that the introduction of new ideas into a stereotyped economic organisation has started a new cycle of population growth? Will efficiency and prosperity continue to increase? Or will they be stifled again by the pressure of increasing numbers? How does the pressure of population upon resources manifest itself? What influence will the awakening economic life of the Far East be likely to exert upon Europe and America?

The answers to these and many other related questions must lie in future experience; but in the meantime the fact that there is an uneven pace of development makes this whole region a valuable laboratory for the comparative study of population development at successive early stages in the cycle of change.

In recent years there has been an increasing number of studies of particular countries. A considerable controversy has developed concerning the facts in China;[3] both Japanese and foreign scholars have devoted attention to the remarkable recent increase

[1] H. G. Moulton, *Japan: an Economic and Financial Appraisal*, p. 466. The export of wool from Australia to Japan is about 500,000 bales annually.

[2] Cf. Amry Vanderbosch, "A Problem in Java," *Pacific Affairs*, November 1930, and Fang Fu-an, "Public Works in Amoy," *Far Eastern Review*, April 1931, the latter illustrating the effect of the emigrants' prosperity in promoting the modernisation of their homeland.

[3] The best recent material is to be found among the papers contributed to the Tokyo meeting of the International Institute of Statistics in 1930. Professor Walter F. Willcox, the chief protagonist of the view that the population of China is much lower than generally estimated and has been stagnant for many decades, has set out this view in *International Migration*, Vol. II. pp. 35–52. As contrasted with this argument the Tokyo paper by Chang-heng Chen, entitled "China's Population Problem," represents the attitude generally taken by modern Chinese statisticians.

in the population of Japan;[1] and the Dutch have made careful studies in Java.[2] Little use has yet been made, on the other hand, of the comparative method. Yet there are very significant contrasts—a rapid colonisation of virgin land in Manchuria, the creation, mainly with Chinese immigrant labour, of a new section of the British Empire in Malaya, the growth of urban areas in China proper, industrial development in Japan, agricultural development in Java. The main purpose of this article is to draw attention to some of the more important manifestations of these complex and uneven population pressures in the Far East.

Malthus and Adam Smith on China

One may well start with the problem which Malthus posed in the first edition of his *Essay on Population*, published in 1798. He there introduced some general references to China by the following passage:

"Dr. Adam Smith observes, that China has probably long been as rich as the nature of her laws and institutions will admit; but that with other laws and institutions, and if foreign commerce were had in honour, she might still be much richer. The question is, would such an increase of wealth be an increase of the real funds for the maintenance of labour, and consequently tend to place the lower classes of people in China in a state of greater plenty?"[3] In the second and later editions of his Essay, Malthus, using the letters and other writings of the Jesuit missionaries,[4] as well as Sir George Staunton's account of the

[1] Cf. S. Nasu, "The Problem of Population and Food Supply in Japan" in *Problems of the Pacific*, 1927, also *Land Utilisation in Japan*, Chicago University Press; H. G. Moulton, *Japan*, Ch. XX; E. F. Penrose, *Food Supply and Raw Materials in Japan*; J. E. Orchard, *Japan's Economic Position*, McGraw-Hill, 1930; W. R. Crocker, *The Japanese Population Problem*, Allen and Unwin, 1931; Etienne Dennery, *Asia's Teeming Millions*, J. Cape, 1931.

[2] Cf. de Kat Angelino, *Colonial Policy*, Chicago University Press, 1931, Vol. I. Chs. VII–IX.

[3] *Royal Economic Society Reprint*, p. 322.

[4] The Jesuits made the third recorded missionary effort in China. Tradition links St. Thomas with an earlier enterprise, but there is definite historical evidence of Nestorian missionary activity on a large scale from A.D. 635 onwards, lasting for some centuries. Marco Polo found evidences of their work, and on his plea missionaries were sent from Rome at the end of the thirteenth century. Neither of these movements, however, left much permanent impress on Chinese life, nor did much to interpret China to the West. In these respects the Jesuits, especially in the eighteenth century, and Protestant missions in the nineteenth, were far more important. The Jesuits, who followed Matteo Ricci from 1582 onwards, gradually attained a position of great influence. They interpreted Western mathematics, astronomy and other sciences to China, and on the other hand brought a real knowledge of Chinese art, philosophy and literature to Europe. Chinoiserie became a fashionable fad in eighteenth century France. Madame de

first British Embassy to China in 1793, devoted a long chapter to a surprisingly good and accurate account of economic life in China.[1] By this time the opening of the sea-routes had gradually brought the Asiatic continent and indeed the whole Pacific Ocean into more frequent commercial contact with Europe and America.[2] It is significant, however, that Malthus dismisses Japan in a couple of paragraphs. Long after China had been opened up to Western commerce Japan remained a hermit country. A vague notion of its social life could be obtained from some Dutch writings, with which Malthus was evidently acquainted, but there is no surety of generalisation based upon adequate detailed knowledge.

It is all the more curious, therefore, to reflect that Adam Smith's penetrating hint has been completely vindicated by the subsequent history of Japan if not so obviously by that of China. Malthus's summary of Smith's remarks sharpens appreciably the point that he was anxious to discuss rather negatively, but it is precisely this point that "with other laws and institutions, and if foreign commerce were had in honour, she might still be much richer," that gives the clue to the very rapid rise of Japan as an industrial power. Japan, without the advantage that Adam Smith so plainly saw in "the great extent of the empire of China, the vast multitude of its inhabitants, the variety of climate, and consequently of productions in different provinces, and the easy communication by means of water-carriage between the greater part of them," has managed to achieve "a more extensive foreign trade," a considerable part of which is carried in its own ships, as Adam Smith suggested, and which has not failed, as he foresaw, "to increase very much the manufactures of (Japan) and to improve very much the powers of its manufacturing industry." Moreover, "by a more extensive navigation," the Japanese have, in fact, learned "the art of using and constructing themselves, all the different machines made use of in other countries, as well as the other improvements of art and industry which are practised in all the different parts of the world."[3]

Pompadour was greatly interested in it, and her physician, François Quesnay, in developing his attack upon the Mercantilist doctrines current in his day, drew material arguments from Chinese economic life for his thesis that the land and its cultivation were the permanent sources of national wealth. (Cf. Harley F. MacNair, *China's International Relations*, pp. 232-4.)

[1] Ch. XII in the 7th edition, ed. W. T. Layton—Dent's Everyman's Library.

[2] A curious result was the glutting of the north China fur market with sealskins brought from the New Zealand coast and surrounding islands by American sailors in the first decade of the nineteenth century. (Cf. Carrick, *Historical Records of New Zealand South*, Dunedin, 1903.)

[3] *Wealth of Nations*, Bk. IV. Ch. IX.

One may very well, therefore, use Malthus's summary of Adam Smith's views as a starting-point for a survey of recent economic developments in the Far East. The spread of the Industrial Revolution which has been proceeding in that area as the result of increasing foreign trade is a significant development, not only for the countries immediately concerned, but for the whole world. But behind this development there inevitably appears the spectre of Malthus's query. Will the increased production of wealth which results from the new methods "place the lower classes of people in China in a state of greater plenty"? Both sides of this question—the economic consequences of new industrial techniques in an ancient civilisation, and the part played in those consequences by population pressure—are perhaps worthy of some thought.

The Revolution of Ideas in Japan

Though the new revolutionary forces of overseas trade were introduced into China, and were accompanied by the hardly less revolutionary efforts of missionary education,[1] over half a century at least before they affected Japan, it is in the latter country that they have had their most rapid and complete success. In passing one may perhaps note the fact that in both countries the revolution was primarily one of ideas. It requires some ingenuity to interpret the beginnings of modernisation in the Far East from a strictly Marxist view-point. It is possible, on the contrary, particularly in the case of Japan, to demonstrate the exact sources of the borrowed ideas which have transformed the country, as well as the time and manner of their introduction.[2] The fact that Japan was started on its career of modernisation by pressure from outside is not, however, inconsistent with later "imperialist" development urged forward by economic causes. N. Lenin (*Imperialism*, Ch. IX) has used Japan to illustrate his theories and elsewhere has commented on the supplementing of capitalist expansion with military force. In the Marxist view the "revolution of ideas" in Japan was an artificial attempt to engraft

[1] The fact that this modern missionary effort was largely Protestant, and, in the last half-century, has drawn most of its personnel and resources from the United States, is significant. The cultural background of the missionaries is an important educational force. Individualism, democracy, a strong scientific tendency, and a general belief in rather aggressive capitalist organisation, are not inconsiderable additions to the forces making for revolution in China.

[2] See *e.g.* I. Nitobe and others, *Western Influences in Modern Japan*, Chicago University Press, 1932, and Sophia H. Chen Zen (editor), *Symposium on Chinese Culture*, data paper prepared for the conference of the Institute of Pacific Relations, Shanghai, 1931.

capitalism on military feudalism; and is destined, therefore, to be a transitional stage leading to class conflict and ultimate revolution.

It is evident from the contemporary accounts of foreign visitors, and from the descriptions of old Japan now being written by Japanese historians, that there was a high level of political and cultural life in that country before the advent of the foreigners in 1852.[1] Even though the semi-feudal society lent itself to sectional conflict, the material of public service was readily available for such a strong and far-sighted ruler as the restored Emperor Meiji proved himself to be. The notion of sending chosen groups of young people to observe and report upon the organisation of society in the Western countries was evidence in itself of a realisation that it was necessary to meet the new situation by the introduction of drastic reforms. The success of the policies based upon the observations of these groups bears equal witness to their shrewdness and point.

The Japanese early recognised that international relations among the European nations were based upon force. It was not long before they had a modern navy modelled on the British and an efficient army trained at first by German officers. But they were equally acute in recognising the importance in modern life of adequate codes of law,[2] the basic place of the natural sciences in modern industry, and the inevitability of a progression towards democracy. Theirs was a planned revolution of ideas, carried through on the whole with great skill and success. Moreover, it was not a mere imitation of Western forms and methods, but a serious effort to graft these on to a Japanese base.

For three or four decades now, Japanese diplomatists, bankers, business men, scientists, have asserted a modest but firm claim to

[1] Cf. *The Complete Journal of Townsend Harris*, Doubleday Doran, 1930, with Y. Takehoshi, *The Economic Aspects of the History of the Civilisation of Japan*, Allen and Unwin, 1930, and G. B. Sansom, *Japan*, The Cresset Press, 1931.

[2] Cf. Inazo Nitobe, *Pacific Affairs*, January 1930: "To put into execution any great reform, there must be a period of preparation and probation, especially when the idea of the reform comes from abroad. We remember well how infinitely long those years were felt to be which were spent in preparing the nation for the abolition of extra-territoriality. Complete reforms in laws, the establishment of courts, the improvement of prisons, the education of judges, the perfection of administrative organs, each and all take long years of patient toil. Indeed, it took a whole generation, twenty-eight years (1875–1901), to convince Western Powers that it would be absolutely safe for their citizens to come under the jurisdiction of the Japanese government. . . . And yet Japan ought not to regret that the best energies of her formative days were devoted to regaining her birth right, because the concentration of her mind upon the question of her international status brought about such changes in her national psychology as would not else have occurred."

international recognition on an equal basis with their foreign colleagues. The implications of such a claim are very important. Three of them deserve to be stated clearly. In China, Java and similar areas, the Japanese have successfully asserted their right to equal privileges with other foreign (European) residents—they enjoy extra-territoriality, share in the government of the International Settlement at Shanghai, govern their own concessions elsewhere, participate in Consortiums. They regard themselves and insist upon being regarded in the Far East as entitled to the privileged position of an "advanced" nation. The same desire for recognition has led them to participate effectively in international movements, both official and unofficial. Third, and not least important, it is one of the mainsprings of the rising standard of living which, much more than the mere pressure of numbers, is the really explosive force in Far Eastern affairs.

There is a solid achievement behind this claim to equality of status with Europeans and Americans. Certain aspects of it are universally recognised.[1] The growth of Japanese shipping and overseas trade cannot be ignored, especially since, like Great Britain, Japan, another island Power of comparatively scanty domestic resources, has been thrust into the necessity of seeking world markets. Her merchant shipping is to be found all over the globe, and her expanding exports compete almost as widely. The report of the Balfour Committee on Industry and Trade may be cited for evidence of the extent to which this competition has invaded markets formerly dominated by Great Britain.[2]

A moment's reflection will suggest that such development of trade and shipping necessarily implies a considerable measure of modernisation not only of the actual processes of production, but also of the auxiliary aids, banking, commercial organisation, advertising and the like.[3] It is, however, necessary to steer carefully between the extremes of regarding Japan as a thoroughly modernised and industrialised country, and, on the contrary, as a rather meretricious imitator of cheap, somewhat unreliable

[1] Of these, it must be said, military and naval prowess are not the least regarded in the outside world. The crushing victory over China in 1894–5 was the first revelation, quickly reinforced by the equally emphatic defeat of Tsarist Russia ten years later. A new world power had arisen, necessitating a readjustment of the strategic and diplomatic balance of power. In the re-shuffling of alliances that led up to the war of 1914–18 and in the diplomatic developments of the post-war period, this fact has played a rôle of increasing importance.

[2] Cf. also B. and H. Ellinger, "Japanese Competition in the Cotton Trade," *Journal of the Royal Statistical Society*, 1930, pp. 185–232.

[3] Cf. H. G. Moulton's experience of Japanese economic statistics, *Japan*, p. xiii.

processes. The very rapidity of the transition which has been accomplished involves elements of weakness. Industry, commerce, shipping, finance have all been stimulated and supported by governmental action based in the first instance upon military necessity. Successive banking crises in recent years have pointed to the inevitable weakness of rapid and somewhat artificial growth; the very concentration which gives the cotton industry, for example, such competitive power may be a source of difficulty in times of depression; the widespread reputation for poor quality of products is largely due to over-eager straining of resources to take advantage of the commercial opportunities offered by European preoccupations in 1914–18. Perhaps most significant of all, if Japan's striking poverty of natural resources is excepted, is the difficulty of improvising in a brief period an adequately skilled labour force,[1] a difficulty that is not without its lessons for other countries, such as Russia and China, which are entering upon programmes of industrial development.

The Costs of Industrial Development

It is just this mixture of strength and weakness in economic development which is most significant in a consideration of Japan's population problem. To appreciate it fully, attention should be further drawn to less known but equally important economic and sociological facts. Behind industrial progress has lain a sustained and costly effort, both material and intellectual. A heavy burden, for example, has been laid upon the rural industries by costly protective policies, and by the development of a powerful modern state. Not only is there a costly burden of armaments, but social life, and particularly education, has been expensively transformed. It has required effort to achieve the virtual elimination of illiteracy and, at the same time, create universities which do not suffer by comparison with the best that Europe or America has to offer. There is, no doubt, a certain tendency to confusion created by the effort to absorb such a heterogeneous collection of new ideas as that which confronts the student in Japan (and equally in China); but the foreign visitor cannot but feel admiration for the broad basis of scholarship upon which the new civilisation is being built. Forests of radio antennæ on the low roofs, newspapers whose circulation runs in some cases into the millions, well-attended cinemas, popular lectures and concerts, are evidence also of widespread popular education.

At such a stage of development, it is the aspirations, rather

[1] Cf. J. E. Orchard, *Japan's Economic Position*, McGraw-Hill, 1930, Ch. XIX.

than the achievements, of a people that are important. There is no turning back from the choice that has been made and the effort that has been expended. The standard of living has risen and is still rising; but neither as fast nor as far as the popular demand which is so solidly based upon both scholastic and popular education. The Japanese islands are small and poor in natural resources, containing few of the raw materials essential for industrial progress, little coal, less iron and almost no petroleum.[1] Only a sixth of the land is arable, and less than a quarter of it is flat enough for intensive cultivation.[2] But, partly from patriotic motives,[3] and encouraged by the increasing wealth of the last three generations, numbers have grown rapidly, doubling between 1868 and 1928. The total area of Japan proper is about that of Great Britain. It now supports a population of over 60 millions, increasing by about a million a year.

It is for these main reasons that population pressure is perhaps more acute in Japan than almost anywhere else, in the Far East or elsewhere. Increasing numbers tell only part of the story, the more important part is to be found in changing social aspirations. There is already a very real pressure on existing standards of life and, still more, an apparent check to their improvement. Three main lines of policy are generally discussed as remedies—birth control, emigration and industrial development.

Of these the first receives more and more serious consideration in Japan. In November 1929 a birth control clinic was opened in Tokyo; but was promptly closed by the police. Within two years, however, such clinics were operating without interference. But, while the importance of this movement for the ultimate welfare of the Japanese people is very great, it is necessary to recognise that it can have little effect for a generation at least.

Emigration has apparently never been regarded by the Japanese themselves as offering more than slight relief. A special department of government has endeavoured to promote emigration and colonisation; but not with great success. The primary

[1] Bain, *Ores and Industry in the Far East*, Council on Foreign Relations, New York, 1927.

[2] Nasu, *Land Utilisation in Japan*, Institute of Pacific Relations, 1929.

[3] The fact that population grew so slowly for at least the 250 years of isolation is evidence of a considerable measure of restriction. Birth control was practised by primitive methods, there was much restraint, delayed marriage, and celibacy, as well as positive checks including some infanticide. The need for increasing population was strongly impressed in the early stages of modernisation. That the patriotic motive is powerfully rooted in deep psychological instincts is illustrated by the explanations offered by Japanese members of the Kyoto Conference of the Institute of Pacific Relations—see *Problems of the Pacific*, 1929, pp. 24–5.

obstacle is the reluctance of the people to move except under very favourable conditions. In a quarter of a century less than 200,000 have gone to Manchuria, and a large proportion of those are engaged in directive pursuits. Their standard of living is too high to enable them to compete on equal terms with Chinese, Koreans or Indians. In any case the best areas for emigration are closed to them. The largest stream of regular migration recently has been an annual movement of about 10,000 to Brazil. The main importance of migration lies, in fact, in the psychological effect of restrictive legislation. The various measures passed have often been framed in harsh terms, and the cumulative effect of restriction itself has been to heighten the national sense of having been born too late into a hostile world.

Industrial development, therefore, remains, or, until the recent depression with its accompaniment of revived economic nationalism, remained, the generally accepted alternative. To this policy the leaders of Japan have bent their greatest efforts and for it the people have submitted to heavy burdens. But a prolific people crowded thickly into a small area of scanty resources cannot industrialise itself except through an expanding foreign trade. Raw materials, capital, and markets are all necessary, together with neighbourly good-will and reciprocity. Great Britain in the mid-nineteenth century was the workshop of Europe if not of the world: Japan aspired to the same rôle *vis-à-vis* an awakening Asia in the twentieth century. Such an ideal is difficult of attainment in the face of increasing tariffs, falling prices, dwindling capital movements, and distrustful hostility. Between the beginning of 1930, when the embargo on gold was removed, and the suspension again of the gold standard in January 1932, deflation was more continuous and severe in Japan than in any other industrial country. The path of peaceful economic co-operation has led in almost every direction temporarily to distress and disillusion. Under such circumstances the older and simpler alternative of expansion by conquest is bound to appear more attractive to large numbers of people.

It is, indeed, essential to realise that the heart of the population problem was hardly touched by Malthus. It is not to be found in the final appearance of such positive checks as starvation and misery. Long before that point is reached by any ambitious modern people, the pressure of numbers upon resources will aggravate almost every social problem—class antagonism, industrial competition, international co-operation will all be complicated by it.

Economic Awakening in China

The acuteness of the Japanese problem arises from the fact that the people as a whole are conscious of population pressure and unwilling to remain quiescent under it. In other parts of eastern Asia such consciousness is far less developed; but it is growing. Both economic and political problems are most acute where there is the greatest measure of popular education, supplemented necessarily by some training in leadership. The Philippines offer a case in point.[1] Despite the fact that there is a considerable variation in the progress of the very mixed racial groups, American educational methods have built upon an old neo-Spanish culture successfully enough to create a national consciousness which by legislation has blocked plantation development such as Hawaii on the one side, or Java on the other, has experienced.

The extent to which, in the twentieth century, it will be possible to stimulate economic progress and accommodate increasing numbers of natives in agricultural and mineral enterprises organised on a capitalist basis, without this leading to a growth of national feeling and class antagonism embittered by racial prejudice, remains an open question. The Dutch in Java have made the most successful experiments in this direction.[2] A combination of wise governmental expedients, race tolerance, efficient economic direction and expanding markets for tropical produce, together with extreme care in the educative processes, have hitherto made possible a considerable expansion of numbers together with slowly rising standards of living. New industries —rubber, cocoa, quinine, tea—have been introduced and fostered by excellent scientific research, the native systems of government and land ownership have been supplemented by careful Dutch advice and by new devices of rural co-operation and credit, and it is not without significance that some of the first experiments in gold-exchange standard methods safeguarded the islands from the consequences of fluctuating silver prices. Even so there

[1] Cf. Bruno Lasker, *Filipino Immigration*, Chicago University Press, 1930; M. M. Kalaw, *The Philippine Question: an Analysis*, and M. D. Gana, *Social Legislation in the Philippine Islands*, papers prepared for the Institute of Pacific Relations Conference, 1931.

[2] de Kat Angelino, *Colonial Policy*, is the latest authoritative survey of the whole problem. Cf. also B. Schrieke (editor), *The Effect of Western Influence on Native Civilisations in the Malay Archipelago*, Royal Batavia Society of Arts and Sciences, 1929. The fullest discussions of the scientific aspects of research in tropical problems are contained in *Proceedings of the Fourth Pacific Science Congress*, May–June, 1929, Martinus Nijhoff, The Hague, 1930.

exists a " communist " movement which has given the authorities some trouble.

It is in China, however, that the leaven of industrialism is beginning to work most significantly. The same forces which have modernised Japan, education, scientific training, increasing trade and contact with the outside world, are operating with disturbing effect, particularly among the intelligentsia, who are drawn largely from the landowning and merchant classes. There has not been until recently, and then only feebly, anything approaching the same conscious, systematised and determined effort by a ruling minority to adopt and adapt Western methods of organisation. The process has rather been one of infiltration of commercial and industrial ideas, confined largely but not wholly to the fringes of China which are accessible to foreign contacts. One result of this haphazard development has been the recapitulation of some of the worst of the social problems which the student is familiar with in the early stages of the industrial revolution in England.

In Shanghai and Tientsin, and a few other centres, there are modern, well-equipped, sanitary and efficient factories under foreign (mainly Japanese) direction. Many of them have welfare departments and have made experiments in methods of payments which avoid the contract system. The Kailan Mining Administration under Sino-British direction has been conspicuously successful in pioneering new methods of efficiency in this respect. Chinese firms exist also which are organised on modern lines. The Commercial Press at Shanghai is (or was until it was recently destroyed) a successful large-scale publishing and printing house, and the whole district around Wusih (an up-country town over 100 miles from Shanghai) has been revolutionised by the enterprise mainly of one family in erecting modern cotton factories, flour mills and silk filatures. It is not the efficient large-scale methods of industrialism which create problems of apprenticeship, child labour, insanitary and dangerous conditions, long hours.

Alongside these factories, however, there exist a multitude of small, mostly inefficient, under-capitalised establishments organised in all the varieties of the small master-merchant-craftsman combination.[1] It is in these smaller workshop-factories that the

[1] There is already a large but uneven literature on Chinese industrial development. Cf. *e.g.* the surveys of Tientsin industries by Franklin L. Ho and H. D. Fong (published by Nankai University); *Memorandum on Agriculture and Industry in China*, by R. H. Tawney; *China's Industrialisation: a Statistical Survey*, by Franklin L. Ho, and *Development of Capitalism in China*, by Akira Nogano, all prepared for the Shanghai (1931) Conference of the Institute of Pacific

worst abuses of child and adult labour occur. There are also, in addition to specific industrial evils, very grave social problems of housing, sanitation, education, in the developing urban areas.

Though the pace of development is slow, the fact of modernisation may be inferred not only from the growth of towns and industries, but also from an expanding foreign trade. Moreover, industrial activity after all is not the most important part of Chinese economic life. There have been distinct advances in agricultural production and in transport and marketing. By the introduction of new crops and some improvement of production, but above all by the more profitable markets offered in foreign trade, some measure of increased wealth has been created. In many parts of the country also the export of labourers has been of considerable importance. Emigrants' remittances play a large part in China's balance of trade.

The new ideas which are slowly changing China's economic outlook come now from three main sources. The first historically and probably still the most important is to be found in the foreign trading settlements of which Shanghai is the chief. But the influence of these essentially foreign communities is now reinforced both by the increasing power of foreign-trained Chinese, and by the prosperity of many Chinese communities in other lands. These are obviously of more permanent importance for the future of Chinese economic life. The many thousands of returned Chinese students will in course of time be increasingly reinforced by the graduates of both national and foreign universities in China; and it is already clear that Chinese who have prospered abroad will send back not only money but ideas and personalities of organising ability.

Most foreign and Chinese experts agree that there has for some time been a tendency towards an increase of population in China, perhaps not very great or very regular, but substantial over a long period of time.[1] Any such increase can only have been

Relations. Dame Adelaide Anderson's *Humanity and Labour in China*, S.C.M., London, 1926, surveys the social problems of factory development and recounts the effort made to establish factory legislation in Shanghai. See also Ta Chen, *Study of the Applicability of the Factory Act of the Chinese Government: a Preliminary Survey of the Shanghai Area*, China Institute of Scientific Management, Shanghai, 1931.

[1] D. K. Lieu of the Chinese Government Bureau of Statistics, in a paper on the 1912 census read to the Madrid (1931) meeting of the International Institute of Statistics, has suggested that "the Chinese population is growing, not at constant rates of increase, but at high rates alternating with low ones, or through increases alternating with decreases." For general evidence of population increase see C. M. Chiao and J. Lossing Buck, "The Composition and Growth of Rural Population Groups in China," *Chinese Economic Journal*, March 1928.

made possible by greater productivity because of new methods of production and trading. There are many tremendous obstacles to any very rapid extension or even continuation of the advance; but it is significant perhaps that, in papers prepared for the 1931 conference of the Institute of Pacific Relations, two competent economists, one Chinese and the other Japanese, agree that there are very real possibilities of raising the standard of living "provided that further civil strife be ended."[1]

The answer to Malthus's query is still obscure. Standards of living in China are tragically low, illiteracy and the deadweight of illiterate custom present enormous obstacles to the spread of new ideas, disunity and factional strife persist.

The experience of Japan suggests one important element of the answer. Increasing productivity can be kept ahead of increasing numbers only if a substantial part of the gain is intercepted for social purposes. China needs virtually all the co-operative apparatus of modern economic life—railways, river-controls, roads and similar public works, a uniform if not stable monetary system, regular and equitable instead of arbitrary taxation, codes of law and effective administration, constructive organisation to free the peasant farmers from excessive rents and ruinous interest, and, most fundamental of all, a large measure of popular education. These are expensive but profitable reforms. The task of initiating them in an area as vast and diverse as that of China staggers the imagination; but concentrated effort in specially favourable areas is by no means impossible or useless.

The bearing of these problems, which are largely problems of government, upon the economic welfare not only of China and her neighbours, but of the other countries of the world, is too obvious to need much emphasis. A prosperous, co-operative China would enable Japan to solve its population problem by industrial and financial development which in turn would be of immeasurable advantage to China. If it had been possible to utilise a fraction of the capital investment which in the recent boom was "spilt" both in the United States and in Europe, upon railway building in China, the world would be richer, international trade larger and freer, and capital more secure. The leader of the Chinese Revolution, Sun Yat-sen, saw the general aspects of this truth very clearly,[2] but lacked the expert knowledge and practical support necessary to carry out his ideas.

[1] Franklin L. Ho, *op. cit.*, and Akira Nagano, *op. cit.*

[2] Sun Yat-sen, *The International Development of China*, Putnam, 1922.

The political and economic organisation required to direct and safeguard the investment of capital in productive uses which would benefit both the people of China and those of the industrial countries ought not to be beyond the capacity of the twentieth century. Not only nationally but internationally also, the pressure of population upon limited resources is conditioned by rational organisation and may be a cause either of destructive conflict or of co-operative effort.

J. B. CONDLIFFE

INTERNATIONAL DIFFICULTIES ARISING OUT OF THE FINANCING OF PUBLIC WORKS DURING DEPRESSION

I. Introduction

We all agree that it is better to give work rather than relief to the unemployed, and therefore many of us are interested in public works during a depression. But for the last year the tendency in most countries has been in the opposite direction; they have reduced their public activity, and by means of bank-rate and other credit-restrictions they have also reduced private activity.

The main purpose of all these negative policies is *to procure a favourable balance in relation to foreign countries.* If one country is more active than others, it will have an unfavourable balance of payments and unfavourable rates of exchange; therefore each country is afraid of being more active than its neighbours, and the result is a competition to be less active. Certainly in that way a country can get a balance, but also high unemployment and poverty; for it often happens that we have to reduce our own employment, if we wish to reduce the employment given to other countries. They do not see that *they can all equally well get a balance, if all are equally active;* and that in that case a certain latent capital will be effective and make the activity possible. Or, if they are aware of this relationship, they regard it as impossible to secure simultaneous activity from other countries. Therefore they go a step farther than reducing their own activity; namely, they proceed to such restrictions against imports as a protective tariff.

An isolated country, that means a country with no trade connections with other countries, would never meet a period of depression by reduced activity; they would understand that this would be a step in the direction of economic suicide. And it is likely that what is best for an isolated country is also best for a closed system of countries like the whole world. This very fact, that the world is separated into countries, is therefore the main cause of the negative policy being so popular; and this applies not only to reduced activity, but also to *wages.* All countries are anxious to reduce wages, salaries, prices, taxes, public relief, etc.;

all with the purpose of being able to compete the better with other countries and to get a good balance of payments. An isolated country would see that sinking wages and prices would mean that it would be longer before there was a return to the confidence that activity would be profitable. The more countries take up this negative policy, the more difficult it becomes for other countries to be active, both on account of psychological infection and on account of the lack of demand from the former countries. The international division of labour, which in normal times is so useful, thus becomes an important cause of depression.

As to public works, the difficulty is not only the balance of payments, but also that the *profit will spread* to other countries, while the home taxpayers must take both the burden and the risk. If the public works are not directly profitable, for instance, because buildings are erected some years earlier than wanted, resulting in a loss of interest, then this loss may be covered, because the works give income to many and therefore taxes will yield more, and less relief to the unemployed will be required. But if the buildings require materials from other countries, and if the increased consumption of our workers means imports of many kinds, then this gain is spread abroad, and our own taxpayers get too small a share of it.

II. Activity Creates Capital

The most popular objection to public works is this, that *the capital* which the State and the municipalities employ is stolen from private business and that the total activity is unaltered; and, if the State can only carry on the work because it can meet an eventual deficit by taxes, the product would be greater under private enterprise. If this were right, it would also apply to the mutual relations of different business men; if one was active, another must be less active because he could not get capital, and the only consolation would be that the victorious probably is the most fit. The mistake is that *the supply of capital is regarded as a fixed amount*, and that all capital produced (the current saving, etc.) is supposed to be employed; but in each period of depression much saving is vain, yet could be secured if the total activity was greater. That depressions can exist in all directions at once will never be understood until it is realised that liquid capital can go to waste owing to lack of demand. We remember the classic statement that general over-production cannot exist; if a man produces for £100, it must be because he (when the product is sold) will buy for £100, and accordingly total demand is equal to

total supply; the error in this is that the saving done is forgotten; if the man deposits the £100 in a bank, *and nobody borrows the amount and invests it*, demand is smaller than supply, and the saving will go to waste. He who saves passively fails to employ, for example, tailors; if then some other person borrows the money and employs engineers, there is equilibrium between the positive and the negative side of the saving. But if neither tailors nor engineers are employed, it is likely that *somebody else will save less* and thus counterbalance the original saving. Certainly this £100 exists as a deposit; but when the saving causes unemployment, the reserves of other persons will be consumed. Most entrepreneurs have private deposits to spend in bad times, or they omit amortisation, although their machines, etc. suffer wear and tear; the workers consume the reserves of their organisations, or they become indebted to the landlord and the retailer; again these latter must get more credit from the wholesale dealer, and the wholesaler from the banker, who says that money is slow to come back; thus the original saving is not invested in new capital-goods, but disappears. When nothing is invested, no net saving can exist.

It thus appears that the available capital is not a fixed amount, but can be influenced by the very course of investment, upwards or downwards; there exists what we may call *latent saving*, namely, the amount which would be saved if all unemployed factors of production were to get work. And it is likely that a great share of this additional income will be saved just because it is additional. If the average saving of income is 10–15 per cent., I suppose that when a man's income is increasing, he saves about 25 per cent. of this addition on the average—much of it being profit for rather wealthy people, who already have all their more urgent needs satisfied; whether the figure is exactly 25 per cent. is, however, of no fundamental importance to the following statements. We will further suppose that the annual additional income, which could be secured in a certain country if all unused factors get work, is 400 mill. (£ in England, crowns in Denmark); thus 100 mill. can be expected to be saved.

In this additional saving we have *the source of the great investment* in prosperous years; the capital is not saved beforehand, but created during the same period, simply because we have no form in which liquid capital can be carried over from year to year in large amounts; only smaller amounts are carried over in the form of stocks of materials and other goods. Certainly the consumption of luxuries is large during prosperity, but the income is so large

that it will allow for both luxuries and saving. The individual, or the single country, can save in a period prior to the investment by lending the money to banks or to foreign countries; but as prosperity is often simultaneous in most countries, this is not the regular source for financing a period of prosperity. What the individual owns is really a share of the already existing goods, and then a right to dispose of a share of the saving of the future. This saving (and the setting free of older capital through amortisation, etc.) is the real source of investment; when a house has been built, somebody's property must have increased in value to an equal extent during the same time; either the owner's property or his creditors'; that means, that somebody must have saved.

Returning to the illustration of the unemployed factors equal to an annual value of 400 mill., we can further expect that an investment of 100 mill. will cause so much indirect activity that a total saving of 100 mill. will appear and the investment will thus be *self-financing* (for an isolated country). To understand this we must consider the term "secondary employment" as used by R. F. Kahn in the ECONOMIC JOURNAL for June 1931. I agree with Mr. Kahn in his interest in public works, in his emphasising the international difficulties, and in his calculations about secondary employment; but as this last problem has also been discussed in this country, I have something to add.

If (*ceteris paribus*) we invest 100 mill., this amount will be paid out as direct or indirect wages, interest, profit, etc.; the receivers will increase their consumption and thus create employment for a new set of unemployed factors, and so on, only with "diminished intensity" (Kahn). As to the cause of this diminished intensity, Mr. Kahn only considers the fact that a share of the employment goes abroad, while he expressly supposes that the new income (or rather the profit) is devoted to consumption in its entirety. It is here that I have something to add, as the saving from this income is a very important by-product to the secondary employment, and is just as capable of financing the activity.

The sum of this saving can be calculated by aid of the same mathematical formula which Mr. Kahn employs for the secondary effects. Beginning with 1, the second set employed is called k; then the third set is k^2, the fourth set k^3 and so on, and the sum of all these additions is $\frac{k}{1-k}$. If we now consider a closed system, where nothing is lost abroad, but where 25 per cent. is lost to saving, the first set of secondary employment is 75 per cent., the

next 56·25 per cent., etc. With 0·75 as k in the formula we then find 0·75/0·25 or 3, which, together with the original investment, gives 4. For the investment of 100 mill. we thus get a total employment of 400 mill., and of this 100 mill. will be saved, just covering the investment. Expressing this in more general terms we may say that the sum of the original and secondary employment is $1 + \frac{k}{1-k} = \frac{1}{1-k}$, and when this is multiplied by the ratio of saving, $1-k$, we get the original 1.

It is thus not necessary for the banks to *wait to see a certain amount of liquid capital* accumulated in cash before they grant credit for an investment; the capital will be saved during the very time in which the house is being built (apart from reduction of stocks of materials, etc.). It is, moreover, not even *possible* to see this liquid capital; all the capital we can *see* is clothed in things; even our deposits in the banks, which in the individual and legal sense are liquid, really exist in things, belonging to the debtors of the bank, or the debtors of the debtors. From a social point of view the term liquid capital does not refer to a date, but to a period in which the saving and setting free of capital takes place. As we have already said, the value of the houses, machines, ships, etc., built in a period of prosperity, is created in that period itself; the capital does not lie idle beforehand. If a bank promises credit for an investment, it really disposes of something *belonging to the future*: the coming saving; and by co-operation with other banks, where it has deposits, or from which it has secured credit, it comes into contact with savings drawn from wider circles than those of its own depositors.

That the above calculations should end with just the same figure for investment and saving can also be understood from the following argument. In one case there will be no secondary employment at all, namely, *if the original production just covers the demand of the unemployed*. If one million unemployed, selected from all trades in harmonious proportion, and equipped in a normal way with buildings, machinery, land (or raw material), etc., are set to produce their own wants, just what they themselves and the owners of the buildings, etc. will buy if employed, we shall have equilibrium at once, and no secondary effects will follow. But if the unemployed produce what they do not demand, partly or in full, the secondary employment must continue, stage for stage, until a sufficient amount of the newly-created purchasing-power is directed towards the original products. Now to save means to buy invested goods; accordingly, the secondary employ-

ment must continue until the total created income causes so much saving that the original investment can be paid, while the rest of the income buys the secondary production. So long as the investment is greater than the saving, the latent wants of the unemployed, which now become effective, are not satisfied, because the production of the wanted goods is just that amount smaller than their income *minus* saving as the investment is greater than the saving. (Income *minus* saving *minus* secondary production of finished goods = investment *minus* saving.)

Some details must be added here. In the first weeks, before the latent saving is effective, a share of the wanted capital must be taken from the stocks, in stores, etc. If we start with greater investment than the expected saving from all unemployed factors, inflation not equilibrium will result. There may be special exceptions to the full employment of all, on account of the seasons, overcrowding in certain trades, etc. We also disregard the fact that secondary production may require capital for the expansion of factories, etc. (and that activity, therefore, does not create *sufficient* capital).

The *banks* are probably not quite aware of this relation, that unemployed factors of production, consisting of a certain harmonious composition, mean a latent power to save, and that it is this latent capital they dispose of when they expand credit. (What else should be the source of the new capital?) They *believe* that they dispose of existing capital, namely, their deposits in other banks; but in reality they dispose of something belonging to the future; experience shows them how much they can dispose of, and in normal times this experience is almost sufficient; but in abnormal times it would be very useful if they had a full understanding. Otherwise we run the risk of over-disposal or under-disposal. If they dispose of more than the latent saving we get inflation.

However, at present there is much more danger of *under-disposal.* The objection to public works, that they take the capital from private activity, shows that people do not know how great a quantity of latent capital there is available for disposal when the world has so enormous a number of unemployed workers and machines. Certainly the international difficulties of isolated activity (see next section) makes the problem more complicated, especially last year, when it has been so difficult to borrow from abroad; but even before that, bankers were afraid of public activity. Then there is the danger that they should become so much impressed by the capital used by the public authorities that

they would reduce their credits to private investment, although the sum of both did not exceed the latent capital.

Whether saving is useful or not also depends on the attitude of the banks. If the banks dispose of all the saving, and if they are ready to expand credit when saving becomes greater, then we can say to the public : You can be quite sure that your saved money will be invested and give employment. But if the banks are too careful, and if nobody dare borrow money or dispose of their deposits, then there is danger that saving will be in vain (as explained in the beginning of this section), because it will cause unemployment; then the saving will be neutralised by the consumption of property by people who have no income on account of the depression. Even in bad times there is much saving done by people with good and stable incomes, through forced amortisation, and through life-insurance, etc., with the result that there is a great danger that the capital thus obtained has not been used. It is the duty of the banks to keep employment so high that all available capital is invested.

III. International Difficulties

The discussion about secondary employment began with the international problem. When Mr. Kahn considers the diminishing intensity, he thinks of the share of the employment which goes abroad. Here in Denmark the discussion was started by people who were interested in capturing work from other countries, and I answered them in 1928. A civil engineer, Mr. F. Johannsen, director of the Copenhagen Telephone Company, maintained, that if we started (captured) work for 100, this would result in a secondary employment in Denmark of 60, this again for the 60 per cent. of the 60, etc., until the sum is 250 (as 60 per cent. of 250 is 150, or just the addition to the original 100; this corresponds with Mr. Kahn's formula). Mr. Johannsen's figures were based on domestic statistics and estimates of the Danish share of the different expenses. I admitted that there was such a series of secondary effects, but that the right figure was probably 40 per cent., resulting in 167 (40 per cent. of 167 = 67). I reduced the figure from 60 to 40 per cent. because it was necessary to allow for the saving; further, there are goods where greater consumption means a smaller export—not greater production—because it is difficult for producers to expand production. And when we consider captured work (not new investment as does Mr. Kahn), we must expect a smaller export to the countries whose production we have captured.

Mr. Kahn considers figures for k between about 35 and 50 per cent.; if the latter figure is reduced, on account of saving, we shall get about the same as my 40 per cent. The total national employment, corresponding to this figure, is 167; but as the total employment for all countries from an investment of 100 is 400 on the assumption that 25 per cent. is saved, then the national employment is less than one-half of the total employment.[1] However, England as well as Denmark has a very one-sided production; for most other countries I think we can get a greater share for home employment, and therefore I will suppose in the following that an investment of 100 results in a home employment of 200, or one-half of the total result. This means that the saving created which will appear in other countries will also be a half of the total saving, and, if we rely on the theory that activity is self-financing, we must borrow 50 of the invested 100 mill. from foreign countries. And this is very difficult at present.

Further, it means, that if we wish to employ all our unemployed, we must start with an investment of 200 mill., resulting in a total employment of 800 mill., of which our own share is 400. The sacrifice of our taxpayers will then become doubled, and the foreign borrowing must be doubled. Probably the Minister of Finance will then prefer to give *unemployment relief*, as this requires much less money at the moment. In a given situation here in Denmark, I calculated that six times as much money was wanted to create work rather than to give relief; this is so because the relief is smaller than the wages, because factors of production, other than labour will also be employed, and because by buying imports of materials, etc., we spread employment to other countries. In another situation the figure would be different, and in a larger country, whose production is more many-sided, and which therefore is more self-supporting, the figure will be lower. But everywhere employment requires a much greater outlay than relief.

Let us nevertheless suppose that a country is willing to be active although other countries are not. Is this possible? Can it borrow the necessary capital from abroad? It should be easy; for the first country creates saving in the other; and when one country has a balance of payments of minus 50 mill., another, or several other countries must have a balance of plus 50 mill. There is no debtor without a creditor; and furthermore this

[1] A further reduction is required if the investment itself requires foreign materials. Here it may be added, that countries with an export of building materials and metals, etc., make more than normal profits from the activity of other countries, and therefore improve their balance of payments in prosperous periods.

follows from the theory of self-financing activity, and from the argument that no house comes into existence without an owner. It is like the clearings between the banks in a single town; the sum of the minus-es is always equal to the sum of the plus-es, and the problem is, whether the banks with plus will grant credit to the other banks, and on what terms; or whether the central bank will intervene. It seems even to be the moral duty of the other countries to grant this credit, for they must thank the activity of the first country for the fact that they have this plus in their balance of payments; the active country renders the others *a great service* by giving them employment, income, taxes and saving. In practice, therefore, we often find that exports are stimulated by giving credit; sometimes even States lend money to exporters for that purpose. (At the very outset the fortunate countries are almost compelled to grant credit for the difference, for international movements of capital are ultimately movements of goods, and this requires time. A sudden export of colossal quantities, and a sudden stopping of imports, cannot be supposed. If capital is transferred by telegram from one country to another, at the same moment a credit of the same amount is moved in the opposite direction, and then the question is, whether the original transfer will cause an export of goods, by means of which the secondary credit is paid.)

But the first country cannot *rely* upon this credit. Perhaps the country with the plus is too distant; or the two countries are not familiar with credit operations with one another; or the fortunate country may prefer to reserve the plus for her own activity, or to lend it to nearer countries. (This, however, would give the first country a chance to make up the deficit by exporting to these latter countries, which now become active.) It is *too risky for us to start*, if we do not know where to get the credit from, and on what terms. Therefore we are all tempted to be as passive as one another, to the great injury of ourselves and the others also, because then they will not get employment from exporting to us.

The worst of it is that the credit must be granted *beforehand;* in advance of the capital coming into existence. If we could be sure that, when a country actually gets a *plus* in the balance of payments, it will lend it to the countries with a *minus*, on fair terms, this would be sufficient—apart from the other kinds of risk, which are always connected with activity; technical risk, price risk, risk that the saving will be smaller than expected, etc. But the credit system of the world would have to be much more centralised before we should be able to rely on this.

In normal times much credit is granted beforehand, both within a country and from the more wealthy countries to others. In fact *the granting of all new credit involves disposing of something belonging to the future;* experience shows, about how much credit can be granted, and so when an investment is started, the amount of current and latent saving will appear to be about right. *But in such abnormal times as exist to-day,* nobody dare grant credit; they do not know how much of the saving, resulting from the activity of a particular country, will appear in their country (Denmark, for instance, gets her building materials from several countries); and a great deal of other necessary information is not at present available. And even if the banks themselves regard it as safe to grant credit, they may not dare to, because *their depositors,* having less confidence in the foreign country than the bank directors, might recall their money. Then even the countries whose taxpayers are willing to meet the eventual sacrifices must be cautious, with the result that the latent capital will not materialise.

Thus there is a terrible competition between countries each to be less active than the other; this they regard as the only guarantee to avoid a negative balance of payments. Further, *each State insists upon having a balanced account,* and especially in having a balanced budget; in my opinion, at the present time, it is the duty of States to have a deficit—as this means employment for the workers and preservation of the latent saving; on the other hand, a balanced budget has good psychological effects, especially if the State wishes to borrow. The more States there are taking up this negative policy, the more difficult it becomes for the other States to continue with public or private activity, both because of psychological infection and because the other countries do not buy our goods. The possibilities of giving the unemployed income, and of increasing the property of society and the State without any burden, will then go to waste.

IV. Isolated Activity

As it is so difficult to get credit from abroad to-day, we must consider what other means there are left, to finance our public and private works, if we wish to be more active than our neighbours. In many countries the *gold reserves* of the central bank are so great that its export can be a really important support for some time; and I cannot see any serious argument against this use of these reserves. At the present time I should be more afraid of receiving gold. As long as gold is the legal standard of most countries,

although suspended in some of them, I regard gold as international money; and money according to the current definition is something which we receive, although we perhaps do not want it directly, with confidence that we shall be able to buy what we want with it. The only practical use of gold in the reserves is to be exported in hard times. If we want goods from countries that will receive neither our goods nor our bonds as payment, we must send our gold. And then later, if the gold standard is maintained in most countries, we shall try to accumulate new reserves to be used in the next period of hard times, either by a surplus in the balance of payments or by borrowing. At present it is France and the United States especially which are able to be active by aid of their gold reserves, but also several other countries. And if all these countries would be active by having confidence in their gold, they would mutually employ each other in such a way that very little gold would have to be exported.

As it is so difficult to borrow at present, the idea naturally occurs of letting the State force on artificial saving by means of *taxation or forced loans*, directed either against the taxpayers in general or against those who get employment through the public works. The city of Copenhagen, which had much work on hand when the crisis began, has recently secured 15 mill. Kr. by extra taxation and 50 mill. by a local two-years loan; this loan was originally intended to be 30 mill., but the citizens were so interested in these bonds that the city secured 50 mill. There is no doubt that by such compulsory or voluntary reduction of consumption we can improve our balance of payments; and it is better that taxes should compel unproductive consumption to be reduced, rather than that the bank-rate should reduce productive investment. But if the purpose is of quite a different kind, namely, to increase employment, we meet a difficult question. Is it possible to augment employment in these ways, or will the taxpayers employ just so many fewer people? It is obvious that there is more employment if money is only given to the unemployed in return for work, than if relief is simply handed out; but it is possible that this positive result can only be brought about if there is later to be a delay in employment when the taxes are collected for the relief works. Further, it is obvious that if all workers and capitalists engaged in the building trade, directly or indirectly, give credit for 20 per cent. of their wages, etc., and save this amount, the amount of capital required for four houses will now be sufficient for five houses. I cannot go into these questions further here, but only state my conclusion; that there *are* some

cases where we can augment employment in these ways; and other cases where we cannot, and that this depends on several factors, of which we may especially mention the velocity of circulation of money. However, secondary employment will rarely occur, and therefore good results can only be secured by such high taxes that we shall get into very great difficulties.

When our activity results in an unfavourable balance of payments, many think that it is most natural to *restrict imports;* and there are many ways of doing this. All countries have movements corresponding to "Buy British," and in all countries we find agitations for protective tariffs. In recent months there have been further total prohibitions set up against the importation of certain types of goods—especially against luxury articles; and such restrictions we meet not only in the customs houses, but also in the banks, where the buying of foreign exchange is denied to importers of luxury goods according to Government regulations. And finally the banks pursue a policy of credit restriction: not only is consumption checked, but also productive investment.

To all these restrictions we must answer that a deficit in the balance of payments is due to a deficit in the *balance of saving* (apart from amortisation, etc., if this is regarded as an item of the balance of payment); the amount by which imports, etc., exceed exports + freight, etc., is equal to the amount by which investment exceeds saving. If the amount of saving remains unaltered, the consumption of restricted goods will be replaced by the consumption of other goods, so that either imports increase in other fields or exports decrease. We must therefore consider whether these restrictions have any influence on saving. If they provide the Treasury with income, this may easily result. If the restrictions are directed against goods which it is possible to produce in the home country, it is likely that they will stimulate employment and, in that way, income and saving also, as is shown below. But if the restrictions are directed against goods which cannot be produced at home, the result is less marked; the goods will only be replaced by home-produced goods of other kinds to a lesser extent, while imported goods will fill the gap.

We are then, in quite a logical way, forced to consider the possibility of creating employment by *protective tariffs, or a combination of public works and tariffs.* This combination is also considered by Mr. Kahn. When, by means of public works for 100 mill., we create employment for 400 mill. of which 200 mill. goes abroad, then we can retain our balance, if we capture a further 200 millions-worth of work from abroad—including the

secondary effects of what we capture directly, say 100 mill. We do not injure other countries, as they get plus 200 and minus 200 mill. in their employment; and we have equilibrium in our own capital market, for the expected saving of 25 per cent. of the 200 + 200 mill. of new income will just cover the original investment of 100 mill. In this way we lose a great deal of the benefit from the international division of labour, but we gain through greater employment, and this will probably be the greater at the outset. Here we shall probably come up against the objection raised by classical theorists: that we cannot improve our balance of payments in this way, for if we buy less from other countries, they will buy less from us. This is so; but the sizes of the increase and decrease are not the same; if it is possible to move employment from one country to another with a net gain of employment as result—and experience proves this to be so—then we have also moved incomes, and accordingly saving. And if the balance of saving is improved by some millions, the balance of payments is improved by just as many millions.

Of course, we must be very careful to select the right trades for the tariff; there are some industries which we should be able to secure by a tariff of 5 per cent. on the value of their goods, as they only lack just that much in order to compete with the imported goods; if these goods are sufficient to create direct work for 100 mill., we do not need more. Should this not be sufficient, we shall let these industries keep their 5 per cent. and give another group 10 per cent., and so on until the 100 mill. are reached.

However, other combinations (instead of public works for 100 mill. and captured works for 100 mill.) may be better. If the factories in the adjoining trades are not equipped with sufficient unemployed or modern machinery for the expansion, they must *increase their capacity;* this requires new workers and new capital, and therefore it will be right to reduce the public works.

But this policy is also difficult and has great disadvantages. Apart from certain trades, where special causes recommend protection, *the loss in the international division of labour is permanent*, whereas the gain in employment is temporary in so far as it is likely that the depression will come to an end, sooner or later. Therefore we will return to the conclusion, that the best solution is activity in all countries; and the second best is the granting of credit.

Thus we have repeatedly reached the conclusion, that if a single country does just what is wanted to create employment, it will encounter great difficulties, because other countries are less

active, or are unwilling to grant credit. The negative policy of other countries, therefore, greatly injures the State which tries to do the right thing; it creates psychological infection, and it makes the task more difficult. Therefore international co-operation is desirable; so it is fortunate that the *International Labour Office* has established a special committee at Geneva to study the question, and that this committee is in connection with the Credit Problem Committee. A report about "Unemployment and Public Works" was issued in 1931.

It is very desirable that this Institution should have an influence on the policies of the various Governments. In all countries there are some parties and classes that are more interested in public works than others, and, as this policy is best for the whole world, it is most desirable that these parties should get *moral support from an international institution*; indeed it should become a question of honour for all countries to take part in this activity.

These credit problems should also come under the influence of the *International Bank* at Basel. If activity of a perfectly legitimate nature results in an unfavourable balance of payments, it will be this bank's natural function to assist in the organisation of short or long term credits on fair terms.

JENS WARMING

University of Copenhagen.

CERTAIN ASPECTS OF THE ENGLISH CURRENCY SYSTEM

I

THERE is a convenience in beginning with an elementary re-statement of familiar monetary facts.

In this country there is in existence a practically fixed stock of about 400 million of notes printed on paper and some 50 million additional minor notes printed on metal. The former are tickets issued from the National Cloak Room in acknowledgment (*a*) of the deposit, by the Central Bank and the defunct Currency Notes Department, of 271 millions of securities and some 4 millions of silver coin, and (*b*) of the deposit, by all and sundry, during the periods of monetary internationalism, of some 31 million ounces of gold. Since September 1931 these tickets have ceased to be utilisable for the withdrawal of parcels from the Cloak Room; though the Central Bank has authority to change one set of securities for another, if by so doing it can facilitate its performance of its Central Banking functions. The minor notes are issued by the National Mint on the principle that this institution shall not become a nuisance by turning out too many or too few, but aim at keeping their number appropriately proportioned to the number of major notes. (When the total of major notes had been reduced in the period 1920–8, it was found convenient to store, temporarily, a now redundant quantity of metallic notes in the National Cloak Room, where they are placed on the same shelf as the 271 millions of securities, and will be available when we enter upon our next period of monetary expansion.)

The predominating element in the national currency consists of the deposit issues of the member banks. At the beginning these banks appeared, along with the Bank of England, as a group of competitive institutions struggling for profits, and for a considerable period failing, and rightly failing, to gain for their privately managed additions to the currency (whether in the form of non-legal-tender notes or of deposits) the complete confidence attaching to the two legalised sets of notes. Like the Bank of England, however, they have now become public concerns, similar to the Port of London Authority and the Universities, though

continuing in form to compete with one another in much the same gentlemanly fashion that Cambridge adopts in its endeavours to hold its own against Oxford.

The currency that they provide consists of about 1,000 millions of circulating deposits (or "current accounts"). It is convenient to picture these deposits as sheets of coupons carried about by the deposit-holders,[1] one deposit-holder making his payments to another by detaching coupons which the other appends to his own sheet; though in actual practice the procedure adopted assimilates them to registered stock rather than to bearer shares, the process of transfer necessitating official investigation and endorsement.

Of these 1,000 millions, some 150 have been sold to the public for cash, the "depositors" obtaining them by handing over 150 millions of the small change provided by the National Cloak Room and the Mint. The remainder have been acquired by various processes of barter—the "depositor," for example, handing over his own promise to pay £1,050 next year, in exchange for a circulating deposit of £1,000, or else surrendering the ownership of other people's promises (including the long-dated promises of joint-stock companies and the State) in return for a deposit. It is, of course, an illusion to suppose that the public can obtain more than a trifling amount of additional deposits by the method of purchase—the "deposit" of money in the original sense of the word—unless the public *as a whole* is willing to subject itself to the inconvenience of always keeping itself unpleasantly short of pocket money and till money.

These convenient substitutes for notes have been taken over from the deposit-manufacturers by the business, professional, and rentier sections of the public in quantities conveniently proportioned to the community's aggregate holdings of notes, much as (at another type of shop) certain customers buy typewriters conveniently proportioned in number to the community's aggregate holdings of pencils and pens. The convenient proportion of typewriters to pens will depend on the community's total output of written matter, the proportion of lengthy to scrappy jottings, and the proportions between the different types of literature produced (poetry, for example, obviously requiring something "with a gauge and a chopper to see to the length of the lines"). The appropriate proportion between circulating

[1] Owing to the confusion of thought that the word produces in many minds, it is much to be regretted that the term "depositor" should have come to be adopted to describe not the banking manufacturer of the deposit, but the deposit-receiver—much as if we referred to a person who buys fish as a fisher.

deposits and notes depends on similar considerations, and appears to have settled down to a figure of roughly 10 to 3 (the notes customarily held by the deposit-manufacturers being for the moment ignored).

An awkward complication that mars the clarity of the scene results from the bankers maintaining the quaint practice (dating from the days of competitive banking) of allowing rentier deposit-holders to deposit their deposits in the vaults of the banks, and to claim a sort of blackmailing fee (called deposit "interest") exacted under threat of demanding their encashment in notes. That this anti-social practice should have been tolerated in the period of competitive fear was natural. But its survival to-day has in it an element of the grotesque. The fee claimed for non-use of deposit currency has, of course, nothing in common with interest paid for the use of capital; the type of person who collects portions of other person's deposit-holdings and hands them over for safe-keeping to a bank supplies no resources to the banking system, and contributes nothing towards its smooth working; and the payment to him of "interest" is as preposterous as would be a fee given by the monetary authorities to all persons who collect notes and sit on them at home, or who send them to the Issue Department and the Mint to be kept in safe custody for them there—a practice which no doubt would be defended on the ground that it enabled the Mint to print more coins and make more profit. From the individual banker's point of view it may seem a reasonable insurance premium against the risk of being compelled suddenly to sacrifice part of his own holdings of Central Bank Deposits in favour of a rival bank. But if all banks refused henceforward to pay this weird form of toll—as no doubt they would if the amalgamation movement among the banks were to end in there being only one Universal Amalgamated Joint Stock Bank—the rentier would hardly now take the trouble and risk of exchanging the deposit for a hoard of notes. Deposit "interest" is a parody on interest payments proper, an internal survival similar in its disorganising effects to the survival of reparation payments in the international sphere, both of them showing their worst features, partly as cause and partly as effect, during a period of monetary appreciation. Except by moralists who remain obsessed by the idea that abstinence *per se* is a moral quality deserving of economic reward, much as war guilt is an immoral quality deserving of economic penalisation, this will hardly be contested.

It is a curious situation that has been allowed to develop.

Defacing the notes has been made a misdemeanour. Privately producing additions to the two officially recognised note issues is a grave criminal offence. But wilful abstraction of the main form of currency from monetary use is not merely greeted with applause in the handbooks of proverbial wisdom, but actually entitles the obstructionist to the receipt of a pension.

The correct policy for the banks would seem to be to exact a small fee in connection with any deposit the average amount of which is very high relative to the turnover. If at the same time the State opened public safe-deposit institutions into which waste deposits (or their equivalent in notes obtained from the banks) could be dumped free of charge (but requiring notice of withdrawal), and arranged to lend back to the banking system the appropriate amount of new currency required to balance the currency abstracted, no danger of dislocation from note-hoarding could well occur. If the State demanded interest on these loans on the same scale as the tribute hitherto received by the deposit-holders, the net result would be the equivalent of imposing a highly desirable levy, yielding about 20 millions annually, on monetary obstructionism. If no interest were charged, or if rentier depositors allowed themselves to be mulcted by the banks for the safe-keeping of their hoards, the suggested alteration in banking practice would enable the banks to lower their customary charges for the creation and distribution of circulating deposits (perhaps, even, if they thought fit, to assign a bonus instead of a "bank charge" to those deposits that were subject to specially rapid or specially even turnover), and should therefore be as welcome to the active section of the community as to the shareholders of the banks.[1] Incidentally it might slightly improve the position of the London Money Market in dealing with "bad money" (the foreign-owned portions of the English currency);

[1] A slight modification of this proposal would be the institution of a new series of Savings Certificates which might be acquired in unlimited amounts by individuals and companies, bearing interest at something less than 1 per cent. The effect of this, when deposit interest was no longer obtainable from the banks, upon the Treasury rates for borrowing, and upon the possibility of War Loan conversion, requires no elaboration. (As fast as Public Deposits at the Bank of England grew they could be used in the purchase, for cancellation, of War Loan,—thus automatically re-building the Bankers' balances at the Bank, as fast as the action of the previously passive deposit holders depleted them.)

Alternatively, the present limit on public Savings Bank deposits might be removed, deposits in excess of the present maximum receiving a nominal rate of interest.

Either of these devices should satisfy the saving person who has an obsession in favour of always being sure of having to his credit an undiminished nominal capital sum.

though movements in the international ownership of parts of the currency (often misleadingly described as "movements of short funds" from centre to centre) would still continue to produce some of their customary effects on the foreign exchange quotations. The Central Bank, being now admittedly a public concern, has ceased to pay tribute on deposited deposits. Was there any real national advantage gained by the temporary abandonment of this principle in favour of foreign deposit-owners during the interval (1914–25) between the two periods of experimentation with monetary internationalism?

II

The total currency is made up of circulating deposits, paper notes and metallic notes—resembling pounds, shillings and pence, in descending order of importance—and changes in the aggregate begin with expansions and contractions of the pounds, the quantity of the shillings and the pence being more or less mechanically adjusted to these expansions and contractions. The possibility of any arbitrary expansion of the paper notes in advance of an expansion of the deposits is as unlikely as the possibility of the Mint expanding the metallic note issue out of proportion to the other types of money.

The total note issue (if pure hoards be ignored) gets distributed into: (1) pocket money held by the wage-earning class for all types of personal and domestic expenditure, and by the deposit-holders for miscellaneous minor expenditure (including relatively major expenditures in the holiday seasons when the depositor invades unusual types of shop or unfamiliar parts of the country where the validity of his circulating deposit is unrecognised); (2) till money held especially for change-giving purposes in shops (including, of course, such places as the railway and theatre booking-offices, the travelling tills of 'bus-conductors and news-boys, and the post offices with their adjacent savings-bank departments), and in employers' offices for minor business expenditures; and (3) bankers' till money.

At the moment of changing ownership, the individual note may be business money in the hand of the giver and domestic money in the hand of the receiver, or domestic money in the hand of the giver and business money in the till of the receiver. Each week-end some 30 millions of bankers' till money becomes for a few hours employers' business money before being transmuted into wage-earners' domestic money; and then, after a short interval, reappears as till money in public-houses, cinemas, and

other shops, from which it is rapidly passed back to become bankers' till money again. This regular weekly tidal movement has its analogue in the annual tidal movement (mentioned in the previous paragraph), which is reflected in the Bank of England's December returns.

The relative proportions of the notes held as shop till money and as domestic money must obviously be affected by every change in the number of shops and their topographical distribution (including their proximity to branch banks holding reserve till money), in the number of employees who become deposit-holders, in national habits of spending (for example, changes in the amount of internal travelling and the types of travel expenditure), in the mutual courtesy and obligingness of adjacent shopkeepers, and in shopkeepers' habits of credit giving. Similarly, the total of bankers' till money would be affected by changes in the number of bank branches and the readiness of nominally rival branch establishments to supply one another with notes, as well as by all the changes affecting the proportions between shop money and domestic cash.

The three quantities (pocket, shop, and bankers' till money) mutually govern one another, after the fashion in which Marshall's three round bullets at the bottom of an egg-cup mutually control one another's positions.

Out of all these mutually interacting forces there must emerge an indispensable minimum figure for the banking till money. The customary total appears to be about 150 millions (probably reaching a weekly maximum on Fridays and a minimum on Saturdays, and an annual minimum at the Christmas end of the year), of which total some 30 to 50 millions may be in the Central Bank.

The shopkeeper requires miscellaneous till money in order to give change to the customer who presents a large note when making a small purchase. The banker requires till money because he is under a contractual obligation always to give on demand change in the form of notes in return for deposit certificates brought in (for destruction) by deposit-holders or their nominees. The main purpose in either case is the necessity of avoiding inconvenience to the shop's customer or the bank's client. Unless there is a serious possibility of violent change in the currency habits, not of the individual erratic client, but of the community (such as necessitated the moratorium decrees of August 1914), the till money serves no further purpose.

Each member bank, however, combines together in a single

statement its individual holdings of till money with its holding of deposits created by the Central Bank; and the Central Bank has a very fluctuating holding of till money. From the figures published in the Macmillan Committee's Report, this seems to be due to the mechanical way in which the member banks keep their monthly averages almost absolutely stationary, their branches serving as passive channels through which the Central Bank seasonally pours out and receives back the notes that members of the general public periodically insist on handling.

The bankers' holdings of Central Bank deposits are required for clearing-house purposes, *i.e.* for the mutual convenience of the banks in their dealings with one another. Once the average amount of these for each separate bank has been established, any change arbitrarily made by one must produce effects on the operations of the other four. Thus if one of them reduces its " reserve proportion " (*i.e.* decides to expand its issue of deposits without waiting for an expansion of its " balance at the Bank "), it not merely inflates the total of the national currency, but increases the Central Bank balances of the associated banks in proportions similar to that ultimately reached by itself, so that all alike are enabled to work on a slightly enlarged scale and to claim the applause of their shareholders for gaining enlarged profits. It is perhaps an advantage of the system, making for currency stability, that gloomy views held by the heads of one bank (as shown, for instance, by an unwillingness in a period of trade depression to issue deposits to its shareholders in the form of dividends) may be partially counteracted by the less dyspeptic views of the heads of another.

The inference would seem to be that no member bank should be permitted of its own initiative to increase or diminish the figures of Central Bank deposits and of current accounts that it has once chosen to establish. Whether its proportions are the same as, or different from, its neighbours' seems to be a matter of little importance; and whether the combined percentage figure of the five banks is large or small seems also to be a matter of indifference, since one established price level is as good as another once it has been unmistakably firmly established (account, of course, being taken of the periods within which, and relating to which, the bulk of existing debt contracts has been entered upon). If the combined percentage figure is reduced below its present level, the accompanying expansion of deposits would require an expansion of the note issue; and unless this expansion of the notes could take the form of an increase in the metallic portion of the

issue (by the adoption, say, of Professor Cannan's suggestion of the minting of metallic notes in denominations overlapping the lower denominations of paper notes), the foreigner would perceive that we were committing the crime of "inflating," with the usual effects on the external valuation of sterling.

In all such matters, the banks being now public concerns, the personal interests of shareholders are as irrelevant as the personal interests of the proprietors of the Bank of England are now admitted to be at the meetings of the Bank Court.

Since the till money is not required for inter-bank settlements, and the Central Bank deposits are not held for the convenience of deposit-holders, it is strange that the regulation of these two totals should continue to be treated as a single problem under the misleading title of "bank reserves." (Indeed, the former might be as appropriately denominated the "reserve" of the shopping system as a "reserve" of the banking system.) The era of competitive banking having passed, neither of these "reserves" serves any purpose as a means of preventing the "failure" of banks. The banks are debarred from experiencing the thrills of failure by the insistence of the business community on having deposit currency for the settlement of a certain proportion of its trade transactions, and by a tacit agreement that our deposits are an integral part of the monetary system. If the clearing-house claims of a creditor bank on a debtor bank could not be met, the creditor bank would instinctively behave as generously as if the debtor bank were a heavily overdrawn and temporarily embarrassed joint-stock company whose failure would dislocate business over wide circles. For the failure of one bank would involve the failure of all, and the banks could therefore be depended upon to ignore the claims of competitiveness and present a united front in the unthinkable contingency of one of them being threatened by any form of public panic. At the worst, a bank that found itself on the point of upsetting the whole system by allowing its share of the total of Central Bank deposits to fall to zero [1] would probably be compulsorily absorbed by the other four, its shareholders impoverished by the drastic writing down of their shares, and the directors subjected to the extreme penalty of a life-sentence of public ignominy; but without its deposit issues losing their validity. For politicians could be depended upon to accept meekly any legislation put forward by the bankers as necessary

[1] Seeing that distrustful deposit-holders would have no motive for increasing their holdings of notes, but would rather open accounts at neighbouring branches of other banks, transferring their funds by cheque, it would practically be only at the last stage that there would be any raids on the till money.

for the salvation of the system, even as they responded with submissive promptitude to the S.O.S. thrown out by the Central Bank last summer.

Unless the word "failure" can be stretched to cover such experiences as that which befell the Central Bank in September, English banks, being public concerns, cannot fail, except in the limited sense in which a shopkeeper may be said to have "failed" if he accidentally allows his till to run dry. When the next Labour Government amalgamates the Central Bank with all the other banks in order to establish the People's Universal Provider of Capital (Unlimited), the "reserves" will be clearly seen to consist merely of money in bearer form held for the convenience of those who prefer to have it temporarily in this shape rather than as registered stock;[1] and the word "reserve" will probably be dropped out of use as a misnomer.

The conclusion seems to be that there is an indispensable till money proportion forced upon the banks by the habits of the community, and an indispensable Central Bank money proportion forced upon each of the banks by the habits of the other banks. And it seems right that the bank authorities should adopt conventional figures well above these indispensable minima; for the banks share with the Mint and the Issue Department the task of ensuring the genuineness of our total currency. And as long as our two note issues cost as little as they do to manufacture, there would be no appreciable waste if the bankers raised their conventional reserve proportion to several times its present figure (provided, of course, that this were done by the central authorities expanding the notes and not by the banks contracting their deposit issues).

As regards the 900 tons of the Sacred Metal that, in all reverence, we have laid before the Central Altar of the Gods that watch over national prosperity, it would seem rash to make any serious change, lest the light of their countenances should be turned from us. But the amount of our oblation is probably sufficient whatever developments our currency system may undergo. This, however, is a matter that it is perhaps more becoming for economic

[1] Perhaps it was some such idea as this that led the Issue Department to print on those useful green oblongs: "Promise to pay the Bearer One Pound." The only kind of pound (other than another green promise to pay another pound) that the Bank is entitled to hand over (except for less than three notes presented at one time) seems to be one pound of registered-stock money. Has any one had the courage to test this possibility by proposing at the Bank's counter to open a current account for £1? ("How will you take it, Sir?" "Fifteen shillings in registered-stock money, please; and the rest in silver").

investigators to refer to the theologians than to attempt themselves to decide.

III

The English currency system has grown up as an outcome of English domestic and business habits, the banks acquiescing, and adjusting themselves to the public convenience by keeping their appropriate share of bearer money and creating the appropriate volume of registered-stock money, so that the fundamental English proportion of 10 to 3 should not be interfered with by any arbitrary action on their part.

In America a fairly similar set of customs appears to have precariously established itself, but the currency system seems still to be in the adolescent phase of suffering spasmodic attacks of loss of deposits. In Europe the proportion that the total of bearer money bears to the total of deposit money varies from country to country, but in general reaches a figure which to English eyes is large: and there is always the possibility of evolution in the direction of higher or lower figures. France, in spite of its being a country of considerable economic strength, appears to have developed a morbid bias in favour of hoarding bearer money: a unique combination of national characteristics, which enables the French to divert any international money from its economic function of serving as a measure of value to use as a diplomatic weapon. Asia still persists in hoarding silver and gold, though it may come to develop along different lines, ceasing in monetary, as in other matters, to be "the unchanging East."[1]

[1] What constitutes the international offence of "sitting on gold"? Does the charge refer to (a) what a country ordinarily does, or (b) what it does during a period of appreciating gold? Are we to compare the total gold held in the delinquent country with that held in others; modifying the charge by reference either to (1) the country's population, or (2) the total volume of money work done within the country, or (3) the volume of international money work with which this country's monetary system is specially concerned? The gold holding of the country, moreover, may be divided into: (I) gold held by its banking system, either (a) in accordance with the laws imposed by the community, or (b) customarily in excess of legal requirements; (II) private hoards of gold (including gold plate, etc., the value of which only slightly exceeds the value of its metallic contents, so that the hoarder thinks of it as potential money); and (III) utilitarian holdings, such as dental gold and other works of art in which the workmanship accounts for a large percentage of the value. (Dental gold in cemeteries—possibly not negligible in America—and hoarded gold certificates are difficult to classify.) We need also to ask (though this is almost a restatement of our first question) whether it matters what a community's laws and customs are, provided they are stable; or whether the gravamen of the charge is the instability of its conduct, disappointing the legitimate expectations of other countries by unheralded changes in its banking and currency laws or by its changeableness as regards hoarding and dishoarding during periods of monetary appreciation and depreciation.

These contrasts need to be borne in mind if the present period of monetary calm should come to be disturbed by renewed agitation in favour of our entering again into equal partnership with other countries and agreeing to regulate our national monetary requirements in accordance with the vagaries of a standard subjected to all sorts of incalculable currency developments abroad. Is it going too far to assert that no country that has failed to maintain for several successive decades a currency system capable of reasonable predictability of behaviour can safely be taken into equal partnership by a nation desiring a quiet life?

No doubt the absence of internationalism means the existence of fluctuating exchanges; and the business man who has once become habituated to the simplification of his accountancy that artificially stabilised exchanges bring with them is naturally irritated at the renewal of "instability." But would he protest so strenuously if he realised that a large part of his difficulties in dealing with bank managers—the instability of their attitude towards his requests for accommodation, and the instability of their views as to what constitutes a fair banking charge—has been due to their concurring in his desire for simplified foreign-exchange arithmetic?

No doubt there are national advantages in our having a smoothly working international money market situated in London. But may not these be over-estimated by the experts who have given evidence before the Macmillan Commission? Certainly the *direct* loss that would be incurred if we did without all the imports obtained by the export of money-market services would be easily outweighed by the damage done to the national dividend by the loss of the output of that part of our resources (especially labour resources) that were continually finding themselves immobilised by the requirements of monetary internationalism. There seem to be sufficient non-monetary forces always present to endanger the continuance of any happy period of economic prosperity and progress. Must we solemnly consider any proposal that we should add to the burdens on our shoulders by declaring ourselves prepared (as in the American crisis of 1907) to upset our monetary system and check our production of wealth in order altruistically to come to the assistance of floundering currency systems abroad?

In my opinion—for what it is worth—the recurrent monetary crises of the greater part of the nineteenth century, accompanying (partly as cause, and partly as effect) the unavoidable periods of mal-investment that belong to every era of rapid economic develop-

ment, were largely an outcome of the difficulties attaching to the evolution from an Al Capone phase of competitive banking to the modern phase of co-operating public concerns,—from a turnpike road era to the era of a National Road Fund. In the last thirty years before the Great War the international standard no doubt worked reasonably well; though the rising importance of America (as shown by the crash of 1907) was gradually beginning to threaten its suitability as our future measuring rod for contracts. The weakening of our relative position in the world since 1914 has made a permanent return to it impossible.

LEONARD ALSTON

MONEY AND CAPITAL: A REPLY

1. WITH an article devoted to a critical discussion of my *Prices and Production*, Mr. Sraffa has recently entered the arena of monetary controversy.[1] There is no denying the fact that reviewing books on money, at a time when monetary theory is in a state of violent fermentation, is not an easy, and perhaps not even a pleasant, task. I can easily understand Mr. Sraffa being a little upset at having spent so much time on a work from which he has obviously derived no profit and which appears to him merely to add to the prevailing confusion of thought on the subject. But it seems to me that, in expressing indignation without making his own position quite clear, he has run the risk of doing himself less than justice and of taking up a position which is, to say the least, somewhat confused. I am not anxious to indulge in controversy for its own sake. But it seems to me that, in replying to Mr. Sraffa's strictures, I may be able, not only to defend myself against what appear to me to be needless misunderstandings, but also to make clearer certain matters which do present, to use Mr. Robertson's phrase, "appalling intellectual difficulty." Hence I have asked the Editors of this JOURNAL to give me space for reply.

Mr. Sraffa objects that I tried to say too much in four lectures, but his criticism really demands that I should have said a great deal more. In fact, many of his objections concern points which are implied rather than specifically developed in *Prices and Production*, this being partly due to the fact that I had discussed them in some detail elsewhere and partly to the fact that I thought that they must be sufficiently clear to an economist without further elaboration. In a short reply it is obviously impossible to discuss the relation between the general theory of equilibrium and the theory of money—one of the points on which Mr. Sraffa disagrees with my method of approach. Fortunately, however, a translation of my earlier treatment[2] of these *prolegomena* to a discussion of the rôle of money in the theory of industrial fluctua-

[1] See his article, *Dr. Hayek on Money and Capital*, ECONOMIC JOURNAL, Vol. XLII, No. 165, March 1932, pp. 42 *et seq.*; Vol. XLII, No. 165, March 1932, pp. 42 *et seq.*

[2] *Geldtheorie und Konjunkturtheorie*, Vienna 1929.

tions has just been completed, and will be published before very long; so that I hope I may be permitted to refer Mr. Sraffa to this book for a reply to his methodological criticisms, and to ask him to return to the points which I do not discuss here should he still feel dissatisfied.

If he does so, I should also like to ask him to define his own attitude to these problems more clearly than he has yet done. From his article one gains the impression that his attitude is a curious mixture of, on the one hand, an extreme theoretical nihilism which denies that existing theories of equilibrium provide any useful description of the non-monetary forces at work; and, on the other hand, of an ultra-conservatism which resents any attempt to show that the differences between a monetary and a non-monetary economy are not only, and not even mainly, " those characteristics which are set forth at the beginning of every text-book on money." I am, however, not quite sure whether Mr. Sraffa has perceived that the refutation of this idea is one of the central theses of my book. What he certainly has not seen—though I should have thought that this was a rather obvious point—is where the essential differences between a monetary and a non-monetary economy are to be sought. I have been assuming that the body of existing pure economic theory demonstrates that, so long as we neglect monetary factors, there is an inherent tendency towards an equilibrium of the economic system; and what I tried to do in *Prices and Production*, and in certain earlier publications, was to show that monetary factors may bring about a kind of disequilibrium in the economic system—which could not be explained without recourse to these monetary factors. I do not quite understand whether Mr. Sraffa thinks that, in order to show this, it would have been necessary first to re-state the whole of equilibrium economics. I thought that this was not only impossible within the limits of a small book, but also quite unnecessary.

Mr. Sraffa's suggestion that I am surreptitiously shifting my position from the theoretical analysis of " neutral " money to the defence of one particular maxim of monetary policy is entirely due to his misunderstanding of this point (p. 43). I am, indeed, assuming that it is generally thought desirable to avert any developments which lead the system away from an equilibrium position, and which, therefore, make a revulsion inevitable sooner or later. But there is no justification for the suggestion that, after this, my exposition illegitimately takes certain aims of economic policy for granted—which I assume " will be found

desirable by every right-thinking person." However, I must not devote too much space to these general methodological questions, but must turn now to Mr. Sraffa's criticism of more specific points in my theory.

2. It is against two cardinal points in my theory that Mr. Sraffa directs most of his criticism: one being the concept of a money rate of interest which is different from the "equilibrium" rate—a concept which it has in common with the theories of a number of other contemporary writers—the other being the tendency for capital accumulated by "forced saving" to be, at least partly, dissipated as soon as the cause of the "forced saving" disappears. This latter point is, in a certain sense, a peculiar characteristic of my own theory of the credit cycle, since it has, so far as I know, never been as explicitly stated before; and it is upon the truth of this point that my theory stands or falls. Following the order of Mr. Sraffa's criticism, I shall deal with this latter point first.

Before it is possible to reach the central point, however, it will be necessary to discuss two closely related questions which are essential to the understanding of the main problem—in spite of the fact that Mr. Sraffa considers them to belong to the "preliminaries" which he thinks "so utterly irrelevant" that he relegates them to two footnotes (pp. 45, 46). In *Prices and Production* I have used the concept of the proportion between the demand for consumers' goods and the demand for producers' goods in two senses—a "real" and a monetary one. This procedure was justified by a special simplifying assumption, on which the greater part of the argument was based, and which made the two proportions identical. In the *real* sense, the concept of this proportion corresponds [1] to the concept of the average investment period, as is easily seen when we regard all goods and services which are already within a unit period of time of becoming ripe for consumption, as consumers' goods; and all other unfinished goods and services as producers' goods. Then the proportion between the amount of consumers' goods and the amount of producers' goods existing at a moment of time (required in order to continue production by the same method) will correspond (except for a small difference which stands in a definite relationship to the arbitrary unit period chosen) to the average investment

[1] This is strictly true only if the proportion is expressed not as a simple algebraical expression, but as a differential quotient of the function expressing the rate at which the original factors are applied during the production period. Cf. the German edition of the book in question: *Preise und Produktion*, Vienna 1931, p. 39.

period measured in the same units. The proportion between the demand for both types of goods and services, as exercised in the form of *money* offered for them, will correspond to the real proportion *only* under the special assumption made for convenience of exposition in the earlier parts of *Prices and Production*, viz. that all goods and services used in the process of production are exchanged against money every time they advance one unit period of time nearer to the consumption stage. That this is a case which is hardly ever likely to occur in the real world is obvious from the fact that it could never occur where any of the durable goods used last for more than one unit period of time. And I think that I have amply indicated in *Prices and Production* that, in the real world, the monetary proportion will be very different from the real proportion.[1]

But the first essential point which Mr. Sraffa seems to have overlooked is that there is some relation between the monetary and the real proportion in the sense that a change in the former will tend to bring about a like change in the latter. Of the fact that, when once this simplifying assumption, made in the earlier part of *Prices and Production*, is dropped, this relation becomes extremely complex, nobody could be more conscious than I am. But how Mr. Sraffa, in view of the discussion of this point on pp. 104–6 of *Prices and Production*, could suggest that I have overlooked it, is beyond my comprehension. In any case, it is the demand as expressed in money which determines the prices of goods in the successive stages of production, and it is these relative prices which determine the physical quantities of goods directed to the several stages.

The second essential point on which Mr. Sraffa has obviously misunderstood me concerns the reasons why these proportions (in the first instance the monetary proportion—which will lead to a similar change in the real proportion) may alter. The monetary proportion (for the system as a whole) is the proportion between the sum of the amounts spent by individuals on consumers' goods and the sum of the amounts spent by them on producers' goods; and it may therefore alter *either* in consequence of a change in the proportion of their income which individuals devote to each of these objects of expenditure, *or* in consequence of a change in the relative amount which the different individuals have to divide,

[1] Cf. pp. 42, 63, 105. I should like to take this opportunity of particularly stressing the importance of the qualifications introduced in lecture IV of *Prices and Production* which Mr. Sraffa has entirely neglected; for, if these qualifications are overlooked, the argument of the earlier lectures, which was based on highly simplified assumptions, must of necessity seem somewhat unrealistic.

i.e. a change in the distribution of purchasing power. Mr. Sraffa must have overlooked this when he accused me of making contradictory statements in connection with the question as to whether it is the decisions of entrepreneurs or those of consumers (or both) which determine the changes in the proportion (p. 45 *n.*). In fact, of course, entrepreneurs are also consumers—though not all consumers are entrepreneurs—and individuals of both groups may change their proportions [1] (by saving or consuming capital); but the social proportion may be affected not only by the decisions of individuals, but also by changes in the buying power of different groups of individuals—due to additions of new money. Now the essential point to note here is that the additional money is, in the normal course of things, lent to somebody who, at that lower rate of interest, is willing to invest more money than before—and to borrow for this purpose.[2] As I think I have sufficiently emphasised in *Prices and Production* (cf. *e.g.* p. 11), it is the fact that, when additional money is lent at interest to the highest bidder we are able to draw certain general conclusions as to where it will be used, which enables us to analyse the effects of the increase of money beyond mere generalities. If it is used—and in this case there is every likelihood that it will be so used—to purchase more producers' goods, a further train of effects will inevitably follow, which may be summarised as temporary forced saving, with a subsequent destruction of at least part of the capital so accumulated; or as a misdirection of production with a consequent crisis.

3. To simplify matters for the analysis of the process of "forced saving," it is expedient to start from a situation where no new savings are accumulated and where, therefore, the proportion is entirely determined by what is necessary to maintain the existing capital. This means that persons who possess capital

[1] I do not understand why Mr. Sraffa should suggest that a consumer who is not an entrepreneur will not affect the proportion between the demand for consumers' goods and the demand for producers' good by his decision to save. It is certain that when he invests his savings by lending them out at interest he is instrumental in directing part of his money income to the purchase of producers' goods, without himself becoming an entrepreneur.

[2] I do not suggest, and my argument does not rest on the assumption, as Mr. Sraffa believes, that the banks have "the power to settle the way in which money is spent" (p. 49). The only essential assumption which I actually make is that money lent at interest will normally, for the reasons discussed in the text, go to the purchase of producers' goods. It is, however, possible that the loans are made in such a way that they are used to increase the demand for consumers' goods; *e.g.* when they are made to the government in order to increase the salaries of civil servants. That I *do* discuss the case of consumers' credits separately is due to the fact that it has actually been suggested that we should "maintain purchasing power" by financing consumption in this way.

must consume only their net income from that capital, and re-invest such parts of their gross receipts as are necessary to keep the capital intact. Now if, through a relative lowering of the money rate of interest, people who find it profitable to invest at that rate borrow additional money from the banks (*i.e.* money which has not been saved but which is the product of credit expansion), then the proportion of expenditure on producers' goods to the expenditure on consumption goods will be raised, prices of producers' goods will rise and their production will increase relative to that of consumers' goods.

Every individual entrepreneur can increase his real capital only by spending more on capital goods and less on labour [1] used in current production (or, what amounts to the same thing, more on labour which is invested for a relatively long period). He can, however, spend more on capital goods than on wages only so long as wages have not risen in proportion to the additional money which has become available for investment. Ultimately, incomes must rise in that proportion, since even the money used for the purchase of new capital goods must ultimately be paid out to the factors which make these new capital goods.[2] But they will rise to the full extent only when all the new money has passed backwards through the successive stages of production until it is finally paid out to the factors. There will, therefore, always be a considerable lag between the increase in the money used for productive purposes and the corresponding increase in the incomes of the factors—and consequent increase in the demand for consumers' goods. And, so long as money keeps on increasing (and for some time afterwards—because of this lag), the demand for producers' goods will be increased relative to the demand for consumers' goods. But as the effect of this rise in wages is no longer compensated by new money becoming available for investment, a point must come when the proportion of his money receipts which is left to every individual entrepreneur to spend on capital goods is no greater than before.

This is modified only to the extent that entrepreneurs may not consume part of the extra profit made during that period, but may invest it. In such a case, the shift of incomes from a class less inclined to save to a class more so inclined will ultimately have produced some real saving. But, as Mr. Sraffa rightly remarks, it is not necessarily true that the persons who now possess more

[1] The term " wages " is used throughout this discussion as a short term for the remuneration of all the original factors of production used.

[2] Except for such amounts as may be absorbed in cash holdings in any additional stages of production.

capital will, in consequence, get a greater *proportion* of the total real income (p. 47 *n.*), and, in any case, the effect of this can hardly ever be sufficient to prevent any increase in the relative demand for consumers' goods.

Now, before wages rose in proportion to the increase in money (and, therefore, all the time when money kept on increasing at a constant or increasing rate), although the increased amount of money capital in the hands of entrepreneurs had put them in a position to buy (or produce) more capital goods than before, and so to increase their equipment and stocks; yet as soon as the competition of entrepreneurs for the factors of production has driven up wages in proportion to the increase in money, and no additional credits are forthcoming, the proportion which they are able to spend on capital goods must fall. This means, however, not only that they must stop adding to the existing capital, but also that they will be unable to maintain and replace all the capital which is the product of the forced saving. Except in so far as they are able, and find it profitable, to make up for this at the expense of their own increased income (see above, p. 242), they will be able to replace their capital only at the same rate as before the forced saving took place, and their capital will, therefore, be gradually worn down to something approaching its former state.

To describe in detail the process by which the additional capital is consumed would be a lengthy task, which I hope to undertake soon in another place. Here it must suffice to point out that if entrepreneurs in one stage of production find it impossible or unprofitable to replace *e.g.* their machines, then this will cause the capital instruments which are devoted to the production of these machines to lose their value. That the physical quantity of these capital goods will, for some time, continue to exist unchanged does not mean that their owners have not lost the greater part, or all, of their capital. It is of very little use for the machine manufacturer to hold on tight to his capital goods when the producer who used to buy the machines is either unable, or finds it unprofitable at the higher rate of interest, to do so now. Whether he likes it or not, the actions of other people have destroyed his capital.[1]

It is a surprisingly superficial objection to this analysis to say simply that " one class has, for a time, robbed another class of a part of their incomes; and has saved the plunder. When the

[1] He does not, of course, necessarily lose all of it. So far as he has definitely committed his capital to the purpose in question, he will write off part of it and will go on producing and selling below cost, thus transferring part of the loss to his competitors who, perhaps, have not profited from the inflation.

robbery comes to an end, it is clear that the victims cannot possibly consume the capital which is now well out of their reach" (Mr. Sraffa, p. 48). Is Mr. Sraffa really unfamiliar with the fact that capital sometimes falls in value because the running costs of the plant have risen; or does he belong to the sect which believes in curing such a situation by stimulating consumption? And would he really deny that, by a sudden relative increase in the demand for consumers' goods, capital may be destroyed against the will of its owners? Surely the case which we are discussing is just the same: as incomes rise in consequence of the preceding credit expansion and the mass of consumers, who under our assumption spend all their income on consumption goods, increase their expenditure accordingly, while the money available for investment in capital goods does not increase any longer, the value of some capital goods produced under the inducement of a relatively stronger demand for such goods will fall below their cost of production.

It is difficult to understand why Mr. Sraffa thinks that it is a contradiction to say that an inflation for productive purposes will cause little *permanent* [1] increase of capital, while an inflation for consumptive purposes will actually cause a consumption of capital. The fact is simply this, that any increase of incomes used for consumptive purposes relatively to the sums available for productive purposes, will tend to decrease the "purchasing power" of these sums (*i.e.* the purchasing power of money-capital); and that, whereas in the former case, where the relative rise of incomes follows only a preceding relative rise in the demand for capital goods, only part of the capital created by the inflation is destroyed again, in the latter case, the destruction of capital is not offset by any preceding gain.

Finally, Mr. Sraffa levels against this part of my argument the further objection that "if the banks increased the circulation but apportioned the additional money between consumers' and producers' credits so as not to disturb the initial proportions, nothing would happen" (p. 48). I wonder whether this curious "objection" is not the product of an unconscious recollection from the German edition of *Prices and Production*, of which Mr. Sraffa has made so ingenious a use at the end of his article. There I have stated explicitly that a stabilisation of incomes "without causing a misdirection of production, could be effectual only if it were possible to inject the additional quantities of money, required

[1] I have, of course, never said, as Mr. Sraffa suggests here—thus contradicting his earlier, more correct, interpretation—that the banks cannot cause *any* accumulation of capital.

for that purpose, into the economic system in such a way that no change in the proportion between the demand for consumers' goods and the demand for producers' goods would be brought about." [1] In any case, I welcome Mr. Sraffa's endorsement of one of the obvious corollaries of my theory of the influence of the money stream on the structure of production. But if he accepts this, how can he reject the other corollary, that if the increase in circulation is not so distributed then changes in the time structure will result? And how can he ignore the fact that an expansion of credit via the Bank Rate mechanism will *not* "apportion the additional money between consumers and producers so as not to disturb the initial proportions," but will certainly favour the "higher" stages at the expense of the "lower"? [2]

4. I have occupied a relatively large amount of space in demonstrating the way in which at least part of the forced savings are lost because, as I have already stated, this point seems to me to be the most fundamental. I can, however, deal much more briefly with the second main point raised by Mr. Sraffa, since his confusion here must have been obvious to most readers. Mr. Sraffa denies that the possibility of a divergence between the equilibrium rate of interest and the actual rate is a peculiar characteristic of a money economy. And he thinks that "if money did not exist, and loans were made in terms of all sorts of commodities, there would be a single rate which satisfies the conditions of equilibrium, but there might, at any moment, be as many 'natural' rates of interest as there are commodities, though they would not be 'equilibrium' rates" (p. 49). I think it would be truer to say that, in this situation, there would be *no single rate* which, applied to all commodities, would satisfy the conditions of equilibrium rates, but there might, at any moment, be as many "natural" rates of interest as there are commodities, *all* of which would be *equilibrium rates*; and which would all be the combined result of the factors affecting the present and future supply of the individual commodities, and of the factors usually regarded as determining the rate of interest. There can, for example, be very little doubt that the "natural" rate of interest on a loan of strawberries from July to January will even be negative, while for loans of most other commodities over the same period it will be positive.

The inter-relation between these different rates of interest is

[1] *Preise und Produktion*, Vienna 1931, p. 100.

[2] That the second case which Mr. Sraffa mentions in this connection (pp. 48–9) is not analogous to a case of inflation, but to a case of saving will, I think, be obvious. Certainly, a man who repays a consumer's credit performs saving.

far too complicated to allow of detailed discussion within the compass of this reply. It becomes particularly complex when we take into account the fact that—as Mr. Sraffa points out—any single one of these rates may be out of equilibrium, just as any price may be out of equilibrium. But the only essential point at issue here is whether the fact that any of these "natural" rates, in terms of a single commodity, may be out of equilibrium in consequence of a disparity between the supply of and demand for this particular commodity can have effects which are anything like those of a divergence between the actual money rate and the equilibrium rate which is due to an increase in the quantity of money. I certainly believe that it is possible in this case to change "artificially" the rate of interest in a sense in which this (with the exception of one particular case which I shall mention) cannot be said of any commodity.

Let us take Mr. Sraffa's case in which the farmers "arbitrarily changed" the quantity of wheat produced—which I understand, from what follows, to mean that they, for example, so increased the supply of wheat that its price fell below its cost of production and, as a consequence of its temporary abundance, loans of wheat were made at a much lower rate of interest than loans of other commodities. But would that fall in the rate of interest on wheat-loans cause anyone to start round-about processes of production for which the available subsistence fund is not sufficient? There is no reason whatever to assume this. In so far as people live on wheat, they will actually be provided with food for a longer period; and in so far as the lower price of wheat will induce people to eat more of it—instead of something else—these other goods will also be available for a longer period of time, and interest in terms of these goods will also fall. The effects will be just the same as if a corresponding amount of wheat had been saved, and when, as a consequence of the fall in the price of wheat, its output falls again, the accumulation of capital made possible by the surplus of wheat will simply cease.[1]

The case would, however, be different if the actual supply of wheat were not changed, but if, under the mistaken impression that the supply of wheat would greatly increase, wheat dealers sold *short* greater quantities of future wheat than they will actually be able to supply. This is the only case I can think of where, in a barter economy, anything corresponding to the deviation of the

[1] That large fluctuations in the rate of saving may have effects similar to those of changes in the quantity of money, I have already pointed out in *Geldtheorie und Konjunkturtheorie*, p. 120.

money rate from the equilibrium rate could possibly occur. And if we assume that, in the community where this happens, wheat is the most important consumption good, then the consequences might be similar to those which occur when the money rate is below the equilibrium rate. The relatively low price at which (*e.g.* in terms of machines) consumers' goods are offered for the immediate future will, in this case, make it worth while to secure sufficient supplies of them to start longer processes of production. But a time must come when the error is noticed, prices of consumers' goods rise, and it becomes obvious that it is not possible to wait as long as had at first seemed practicable for the product of the investment. Although I am tempted to follow this example further, I must leave it here, and trust that this sketchy outline will be sufficient to show the main differences between this and the former case.

If we generalise this second case, and assume that it is not the promise of a particular kind of consumers' good, but the claim on present goods in general which is offered in exchange for promises of future goods in excess of present goods available for that purpose, then we have the case of an increase of money by means of additional loans for investment purposes. Investment will exceed saving; *i.e.* processes of production will be started which will be longer than is justified by the available subsistence fund, and which must, therefore, be discontinued as soon as consumers in general are no longer "robbed" by means of more and more issues of new money. The further effects of such a process have already been discussed in the preceding section.

Mr. Sraffa, it appears, sees no reason why the demand for new capital should be limited to the amount provided by saving, and he obviously sees only one reason why the rate of interest should not be lowered to zero—viz. the danger of a general rise of prices. But this is not surprising as coming from an author who considers a discussion of the real aspects of the capitalistic structure of production as being "utterly irrelevant" to the problems of money and inflation.

5. So far, Mr. Sraffa's criticisms, although they seem to me to be based upon a misconception of the problems at issue, are fairly intelligible. But in the last paragraphs of his article he adds some remarks which I confess I find it more difficult to follow. They begin with the paragraph at the bottom of p. 52, where Mr. Sraffa tries to make use of the fact that, at one part of my exposition, I use—for want of a better expression—the phrase "supply of real capital" for that part of the total money stream

available for investment which comes from real sources (saving or the amortisation of existing capital), and not from additional credits, in order to prove that I confound, or define as synonymous, real capital and money capital. He does so in spite of the fact that, at the point at which I do this, a footnote expressly warns the reader that " 'real capital' stands here as the only short (but probably misleading) expression which I can find for that part of the money stream which is available for the purchase of producers' goods *and which is composed of the regular receipts of the turn-over of the existing producers' goods* (i.e., *in the case of durable goods, the reserves accumulated to make up for depreciation*) *plus new savings*." Mr. Sraffa quotes part of this footnote. But he omits the essential part, which I have italicised here, and thus makes my use of the term look entirely silly, though the term "real," in this connection, has a perfectly definite—even if not quite usual—meaning. I cannot believe that Mr. Sraffa wants to misrepresent me, but I confess I find it difficult to understand the state of mind in which he singles out this footnote and then leaves out the qualifying phrase, the inclusion of which would deprive his criticism of its point. Can it be that Mr. Sraffa does not understand that that part of the money stream I thus single out must necessarily have a special economic significance? Certain of his remarks about forced saving lead me to suspect that this may be the case.[1]

But in the spectacular conclusion of his article Mr. Sraffa makes an even more absurd suggestion. In the discussion which followed the delivery of my English lectures, I became aware that, obviously owing to the influence of Mr. Keynes, the term "saving" was frequently understood in a sense different from the one in which I employed it. As a consequence, when, a few months later, I prepared for the press the German edition of *Prices and Production*, I inserted, among other additions which were intended to clear up the more difficult points, a paragraph which, I hoped, would mark off my concept of saving from, *e.g.*, that used by Mr. Keynes. Nothing could have surprised me more than that this attempt to make the difference between Mr. Keynes' theory and my own more clear should be interpreted by anyone as "landing me right in the middle of Mr. Keynes' theory." (That I meant it in this sense is obvious from the fact that I quoted this paragraph against Mr. Keynes in my Rejoinder to his Reply to

[1] I need not go into the other supposed "modification" of my theory which Mr. Sraffa mentions in this connection, as it ought to be obvious that the case in which the amounts saved are not invested is a case of a change in the velocity of circulation; *i.e.* a case which, in the English edition of *Prices and Production*, I had already expressly stated to be an exception to the general rule.

my criticism of his *Treatise*.[1]) I venture to believe that Mr. Keynes would fully agree with me in refuting Mr. Sraffa's suggestion. That Mr. Sraffa should have made such a suggestion, indeed, seems to me only to indicate the new and rather unexpected fact that he has understood Mr. Keynes' theory even less than he has my own.[2]

F. A. VON HAYEK

A REJOINDER

THIS specimen of Dr. Hayek's manner of arguing is by itself such an eloquent illustration of my review that I am reluctant to spoil it by comments. I shall therefore confine my reply to the two "cardinal" questions, whilst for the other points referring the patient reader (if there be any) to my previous contribution.

The first question is whether, as Dr. Hayek asserts, the capital accumulated by "forced saving" will be, "at least partly," dissipated as soon as inflation comes to an end: "it is upon the truth of this point that my [Dr. H.'s] theory stands or falls." My simple-minded objection was that forced saving being a misnomer for spoliation, if those who had gained by the inflation chose to save the spoils, they had no reason at a later stage to revise the decision; and at any rate those on whom forced saving had been inflicted would have no say in the matter. This appeal to common sense has not shaken Dr. Hayek: he describes it as "surprisingly superficial," though unfortunately he forgets to tell me where it is wrong. I must therefore make another attempt to follow him a little way into "profundity."

I shall take up his argument (§ 3) at the point where the inflation which has caused the accumulation of capital comes to an end. In order that the case may be comparable with Dr. Hayek's case of "voluntary saving," inflation must have proceeded at a gradually decreasing rate until it ends just when the longest among the newly started processes of production begin to yield consumable products: from that moment onwards the entrepreneurs will be able to meet their outgoings for current production and for maintenance of the increased capital entirely out of their receipts from sales, without need of any additional inflationary money. This, of course, as Dr. Hayek says, is possible "only so long as wages [*i.e.* incomes] have not risen in proportion

[1] See *Economica*, No. 34, November 1931, p. 402 *n*.

[2] [With Prof. Hayek's permission I should like to say that, to the best of my comprehension, Mr. Sraffa has understood my theory accurately.—J. M. KEYNES.]

to the additional money which has become available for investment." And now we reach the point of the dispute: "Ultimately, incomes must rise in that proportion, since even the money used for the purchase of capital goods must ultimately be paid out to the factors which make these new capital goods." I contend that this will not happen. Once more Dr. Hayek himself provides me with the argument against his theory, by appending here this footnote: "Except for such amounts as may be absorbed in cash holdings in any additional stages of production." Exactly: and if Dr. Hayek had taken as much pains in writing his book as his reviewer has taken in reading it he would remember that under his assumptions such cash holdings will absorb not merely certain exceptional amounts, but *the whole* of the additional money issued during the inflation; that consequently incomes cannot rise at all, and there will be no occasion for any dissipation of capital. Let me remind him that he has assumed in his book that capital will be accumulated in proportion to the quantity of money issued in the form of loans to producers; that the number of stages of production will increase in proportion to the quantity of capital; that the quantity of payments to be made will increase in proportion to the number of stages: as a result, the quantity of payments to be made increases in proportion to the quantity of money, and the whole of the additional money is absorbed in cash holdings for performing such payments.

It may be noticed as a curiosity that in the world assumed by Dr. Hayek, inflation through credits to producers, while it leaves money incomes unchanged, brings about a positive *fall* in the prices of consumers' goods. (As this may sound incredible, perhaps even to Dr. Hayek, compare in *Prices and Production*, Fig. 2, p. 40, which represents the initial position, with Fig. 4, p. 50, which represents the situation at the end of the inflation: the aggregate money value of the mass of consumers' goods is unchanged, but their quantity being larger after the inflation, prices per unit must be lower. See also pp. 51–2.)

After this Dr. Hayek will allow me not to take seriously his questions as to what I "really believe." Nobody could believe that anything that logically follows from such fantastic assumptions is true in reality. But I admit the abstract possibility that conclusions deduced from them by faulty reasoning may, by a lucky accident, prove quite plausible.

I have only a few words to add on the second cardinal question, that of the "money" and the "natural" rates of interest (§ 4). Dr. Hayek's ideal maxim for monetary policy, like that of Wick-

sell, was that the banks should adopt the "natural" rate as their "money" rate for loans: the only obstacle which he saw was the difficulty of ascertaining in practice the level of the "natural" rate (p. 108 of the book). I pointed out that only under conditions of equilibrium would there be a single rate; and that when saving was in progress there would at any one moment be many "natural" rates, possibly as many as there are commodities; so that it would be not merely difficult in practice, but altogether inconceivable, that the money rate should be equal to "the" natural rate. And whilst Wicksell might fall back, for the criterion of his "money" rate, upon an average of the "natural" rates weighted in the same way as the index number of prices which he chose to stabilise, this way of escape was not open to Dr. Hayek, for he had emphatically repudiated the use of averages. Dr. Hayek now acknowledges the multiplicity of the "natural" rates, but he has nothing more to say on this specific point than that they "all would be equilibrium rates." The only meaning (if it be a meaning) I can attach to this is that his maxim of policy now requires that the money rate should be equal to all these divergent natural rates.

PIERO SRAFFA

REVIEWS

New Methods of Measuring Marginal Utility. By RAGNAR FRISCH. (Tübingen: J. C. B. Mohr (Paul Siebeck). 1932. Pp. 142.)

PROFESSOR FRISCH'S study is of the greatest importance, not only because he shows how to bring into the analysis of the relations between income, prices, and expenditure material hitherto intractable, but because he also connects the "money-flexibility of income" with the principles of index-numbers, of labour supply, and above all of taxation.

Possibly in the end it will be the non-numerical part of this treatment that will prove the most important, for it is independent of the troublesome and doubtful hypotheses that are necessary in handling existing data. Indeed the sections on index-numbers and labour supply are not applied to actual statistics, except in a slight illustration on p. 79, while that on taxation is also mainly independent of data.

The term "marginal utility" has been used in many connotations, and it will be best for readers to take his definition (given below) as sufficient for his purpose, whether the name is inappropriate or not. The position would have been clearer if the title had been the "measurement of money-flexibility," since it is this conception that is the more important in the work.

The underlying assumption of such an analysis must be that an individual may be supposed to have a scale of expenditure on various commodities which depends on prices and on various levels of income. In mathematical language a continuous function in three variables, that can be visualised in three dimensions, is presumed to exist for any person. The evident difficulty of applying this conception is that at any one time and place and for one person, we only know one point on this figure. One step that can be taken with reasonable security is to postulate an average person. A second step is to assume that certain properties of the figure, relating to the shape rather than to the magnitude, are common to different persons or to the same person at different times. In the two numerical illustrations, the treatment of which occupies the greater part of the book, these and even less

plausible assumptions are made, perhaps without sufficient explanation or attempt at justification. Since these assumptions are best detected by studying the method, a very abbreviated statement of the procedure is here offered, with the hope that the author will not find that essentials are omitted or that the abstract is inaccurate.

The starting-point of the analysis needs the following symbols :—p is the price of a commodity of which x units are bought. $x \times p = \xi$. $u(x) \,.\, dx$ is the change in utility caused by the addition of dx units. P is the price of a generalised or average commodity, ρ is whole expended income, and r is taken as the number of units of this commodity, where $r \times P = \rho$. $w(r) \,.\, dr$ is the change in utility caused by the addition of r units. $u(x)$ is called the marginal utility of the commodity (measured per pound), $w(r)$ is called the marginal utility of money (per dollar), measured per unit of purchasing power, or the *real* (deflated) money utility.

The usual equilibrium equation is $w(r)/P = u(x)/p$, which is written

$$w(r) = \alpha \,.\, u(x) \quad . \quad . \quad . \quad . \quad . \quad . \quad (1)$$

where $\alpha = P/p$.

$\breve{w} = \dfrac{d \log w(r)}{d \log r}$, the ordinary form for a measurement of elasticity, is called the *flexibility* of the marginal utility of money, or the *money-flexibility*.

The objectives are to determine the properties of the functions w and $\breve{w}$, and their numerical values for given values of r.

It is assumed that $u(x)$ and $w(r)$ are of the same *shape* for all persons, or for average persons, but each has a personal factor (independent of x and r); further, the shape of these functions is independent of time and place.

A three-dimensional figure is conceived, and actually constructed and photographed (p. 17) from United States experience, where on the axes are measured α (the price ratio), x (the consumption of a particular commodity or budget of commodities), and $r = \rho/P$ (the real income). Equation (1) represents this surface.

1. The "isoquant" method. For this statistics already published [1] are used.

α is proportional to the reciprocal of the price of sugar in French co-operative stores, x the amount of sugar purchased per member. r is the ratio between ρ, taken as total sales of all commodities per member, and an index of the cost of living.

[1] "Sur un problème d'économie pure." Frisch, *Norsk Matematisk Forenings Skrifter*, 1926.

Entries are selected for which x has the same value x_1 for different months, and the corresponding values of r and α are graphed on scales of r and α. A curve is drawn through the points so obtained, giving a section of the figure of equation (1)—that is, the curve $w(r) = \alpha \,.\, u(x_1)$. A series of such curves is drawn for various values of x, resulting in contour lines of the surface. The gradient of this curve (inclination to $\log r$ axis) then by measurement gives $\check{w}(r)$, since α is proportional to w. w is then obtained by graphic integration. The results are shown on p. 32.

2. The "quantity variation" method. This method is applied when we do not know the quantities x, r but only the values ξ, ρ. In the example given the data are ξ, the expenditure on food, and ρ, the income in thirteen American cities for each of seven income groups.

Professor Frisch's argument can be simplified by the following notation :—

Equation (1) is equivalent to

$$\log w(\rho/P) = \log P - \log p + \log u(\xi/p).$$

Write

$$R = \log \rho,\ X = \log \xi,\ \beta = \log P,\ \gamma = \log p.$$

The equation may then be written $W(R - \beta) = \beta - \gamma + U(X - \gamma)$, where W and U are functions directly related to the functions w and u.

R and X are known from the data.

The shapes of the functions W and U are supposed to be the same for all cities and all persons. β and γ are not known, but in any one city they are constant.

Thirteen curves were drawn, one for each city, by plotting values of R, X on transparent paper, and of these eight were selected. The curves were shifted parallel to axis of R and parallel to the axis of X, till they were placed (in reference to one chosen as standard) so as to satisfy the geometric conditions of parallelism and relative distances which the form of the equation

$$W(R) = \delta + U(X)$$

requires. $\delta = \beta - \gamma = \log \alpha$ is known for each city by the amount of shifting required.

The curves give contour lines of the figure of equation (1) for assigned values of α (figure, p. 61). Now for any two nearly

equal values of r, say r_1 and r_2, the money-flexibility for their average is approximately

$$\tilde{w} = \frac{\log w(r_1) - \log w(r_2)}{\log r_1 - \log r_2} = \frac{W(R_1) - W(R_2)}{R_1 - R_2}$$
$$= \frac{\delta_1 - \delta_2}{R_1 - R_2} \text{ for } X \text{ constant.}$$

From the graphs in the position described pairs of such values for selected X's can be measured, and hence values of $\tilde{w}$ computed for a series of values of r.

In the end, 17 such values were computed and are graphed on p. 63.

A smooth curve through these points is drawn, and this gives the desired table connecting r, w and $-\tilde{w}$, *i.e.* the real income, marginal utility and money flexibility.

It may be remarked that out of 91 original entries of income and food-expenditure only 17 were finally used, and that the points in the graph on p. 63 show considerable variation from the smoothed curve fitted to them. The values in order of r are—

r.	$-\tilde{w}$.	r.	$-\tilde{w}$.	r.	$-\tilde{w}$.
6·2	0·275	4·3	0·34	3·25	0·55
5·7	0·213	4·28	0·365	3·1	0·428
5·7	0·305	4·05	0·329	2·88	0·523
5·5	0·35	3·75	0·36	2·8	0·575
4·7	0·407	3·35	0·48	2·62	0·528
4·35	0·29	3·3	0·425		

The method depends on so much free-hand interpolation, and so much mechanical shifting, that it must be doubtful whether the moderate regularity of the result might not be reached from any set of figures treated in this way. Certainly the regularity is not sufficient to verify the hypothesis that the functions w and u are independent of place.

Importance is attached by the author to the result that "the absolute value of the money-flexibility is less than unity over the entire real income interval considered," and this is substantiated completely by the above table, if the method is accepted as valid.

In the French series, however, $-\tilde{w}$ increases from 1·28 for the highest income included to 3·55 for the lowest.

On p. 126 it is affirmed that w and $-\tilde{w}$ decrease as the income increases and that the money-flexibility is less than unity except for the poor. Thus at some critical point of the income range the money-flexibility is unity.

Whether these data are sufficient or not, it is important to

realise that the problem of determining money-flexibility has been solved when we know a reasonable number of amounts purchased with given incomes at stated prices, or only of expenditures on assigned commodities for given incomes, irrespective of prices.

The applications to methods of taxation follow readily from the conception of money-flexibility, when Professor Frisch's very useful and significant notation is used. The conditions under which five principles of taxation entail a progressive tax are considered.

The principle of equal sacrifice (Emil Sax) is found to lead to a progressive tax only when the money-flexibility is greater than unity. This result is regarded as paradoxical in the light of the evidence that this is only the case for lower incomes, and therefore for the higher ranges the tax should not be progressive.

The principle of equal proportional sacrifice leads to a progressive tax up to a higher range of income; but to decide the critical point needs an estimate of total utility, which otherwise, perhaps fortunately, is not involved in the results.

The marginal-difference principle, that is equality in *absolute* increase of marginal money-utility, necessitates a progressive tax throughout the range which the statistics cover, and it may be presumed that the condition is generally fulfilled.

The marginal-ratio principle (Schönheyder and Meyer), that is equality in *proportional* increase in marginal money-utility, in general needs a progressive tax.

Finally, the principle of minimum sacrifice, or complete levelling of income, leads obviously to a progressive tax.

The application to index-numbers involves a formulation that the author rightly considers "may seem a little strange," but which is certainly original. It consists in taking those incomes as corresponding to one another in two countries or at two dates, at which the absolute value of the money-flexibility is the same. Thus if $-\check{w}$ is 2 for a German income of 500 marks and an American income of \$200, it is taken that at these incomes the German and American are equally well off, and at this point of the range of incomes \$2 is equivalent to 5 marks. The ratio changes as we go up the scale of incomes. Perhaps this method rather emphasises the difficulty of comparing incomes than gives a valid and practicable measurement.

Corrigenda.—P. 69 (8·18 and 8·20), accent on *u*. P. 79, Table 6, accent on *w*. P. 103, below Table 18, accent on *w* and W. P. 125, accent on ϕ and two accents on last *w*. P. 135, correct formulæ (11·50) and (11·72).

A. L. BOWLEY

Economic Essays and Addresses. By A. C. PIGOU and D. H. ROBERTSON. (London: P. S. King & Son. 1931. Pp. 215. 10*s.* 6*d.*)

PROFESSOR PIGOU and Mr. D. H. Robertson have very conveniently gathered together in a single volume a number of articles, most of which have appeared elsewhere and almost all of which an economist would wish to have in accessible form for reference. The contributions of the two authors are quite independent. By this novel plan the genuine student gains at the expense of the mere book-collector. The former gets what he wants at less cost than if each author published the existing essays separately, and with less time lag than if each author waited until he had sufficient essays on hand to make an independent volume of the size of the present one. On the other hand, of the collectors, those, if such there be, who either are determined to have all the works of Professor Pigou while being indifferent to Mr. Robertson or are determined to have all the works of Mr. Robertson while being indifferent to Professor Pigou, may feel themselves unduly mulcted by the present arrangement.

It is impossible to give a critical estimate of these contributions in a short space, for each article would require a long review to itself. It must suffice to indicate the scope of the volume. Professor Pigou's contribution includes, *inter alia*, his Sidney Ball Lecture, a beautifully lucid account of the function of economic analysis, two rather elaborate papers on exchange equilibrium, one relating to supply and demand in general and one to the equilibrium of international interchange, and an account of his own method for the statistical derivation of demand curves, designed to obtain results the economic implications of which can be more clearly apprehended than can those of the results yielded by the methods which have been elaborated elsewhere. There is also an article on the benefits which might be made to accrue from stabilisation in particular industries. Professor Pigou makes the point that price stabilisation and output stabilisation are mutually opposed. It may be observed that this opposition would be mitigated and ultimately eliminated if an output stabilising policy were extended to a number of particular industries and ultimately to the whole field. One premise in Professor Pigou's reasoning seems to be open to criticism. He assumes that in competition or multiple monopoly, when there is an expansion of demand, each producer "is apt to focus his attention on this fact," not to take proper account of his rival's response to it and to expand unduly

in consequence. This is a common assumption, but is it justified by analysis? In perfect competition the producer focuses his attention on the price registered in an organised market, which takes account of the whole situation. In imperfect competition the producer pays attention to the rise of demand in his own area or of his own customers.

Mr. Robertson includes a lecture on Theories of Banking Policy which summarises in an extremely intelligible form his views on the fundamentals of monetary theory. His B.B.C. talks on World Finance are also included, and an analysis of the monetary doctrines of Messrs. Foster and Catchings, which should save much labour for those who are anxious to assess the contribution of these writers. In discussing the Transfer Problem, Mr. Robertson succeeds in showing on various hypotheses that the increase of purchasing power abroad, on which those who deny the existence of a special transfer burden lay stress, is quite consistent with the presence of such a burden. His conclusion is mainly negative; he does not supply us with an apparatus for determining the relation of fundamental conditions to the degree of burden. The most precious gem in his collection is the memorandum submitted to the Macmillan Committee on the world slump. This is a masterpiece of compressed but clear and easy statement, of synthesising power, of balanced judgment.

Rich pleasure as well as profit will be reaped by readers of this volume. For the two writers are, each in his own way, great stylists in economic writing; and the collocation gives a fascinating opportunity for observing similarities and differences in method both of expression and of analysis. R. F. HARROD

Essays in Persuasion. By J. M. KEYNES. (Macmillan. Pp. 376. 10*s.* 6*d.*)

I DO not think that anybody can read Mr. Keynes' essays without asking: How can it be that a man whose power to analyse the pressing problems of to-day is so imposing, has been able to exercise so little influence on actual policy? Why has a man with so much success in prophesy—the real proof of his analytical ability—been so unsuccessful in persuasion? Evidently this question has troubled Mr Keynes himself, for he begins the preface by saying that he "could never influence the course of events in time."

It is probably necessary to stress the last two words "in time." I do not think that Mr. Keynes' writings have failed to influence the thoughts and ideas of men in power. He has set

their minds to work in his direction, but too slowly to influence their action. Most of us are so used to thinking along conventional lines that we cannot easily shift to new tracks. We do not quite trust men with a more versatile mind, and do not like to hand over executive power and responsibility to them. Perhaps we suspect the brilliant men of being somewhat unstable. There is general agreement that a bank leader must not be brilliant. If the directors of the Bank of England and other bankers have refused to listen to Mr. Keynes' advice, the reason is, I think, to some extent this instinctive suspicion of the truly brilliant mind.

Mr. Keynes' journalistic activities must therefore be gauged not by the extent to which his advice has been followed, but by the influence his writings in the twenties will exercise on current economic thought and economic policy in the thirties. I feel certain that this influence, which is already evident, will be considerable. To take one example only, the general willingness to-day even among bank managers to consider a managed paper currency as a real substitute for the gold standard must be to no small extent due to the discussion around some of Mr. Keynes' essays. I think they will in the next years work hand in hand with his *Treatise on Money* in preparing the ground for monetary reform.

Of course, it is not without reason that people read the articles from brilliant pens with some suspicion. The argument is presented with so much cleverness that the reader must be on his guard all the time to be certain that he is not carried away too easily. Besides, a man has to live up to his reputation, and a brilliant man labours under the dangerous obligation that he is expected always to say something brilliant.

I have sometimes heard this said about Mr. Keynes, so when re-reading his essays I paid special attention to possible traces of this temptation. Frankly speaking, I could find very little of them. No doubt he is fond of saying startling things, but they are to the point, and to enhance the journalistic value of articles, which should, of course, enjoy more freedom of style than a volume written only for scientists.

It is not difficult, however, to find examples of arguments which are presented in so startling a manner that they carry less conviction than a simpler style would do. I confess that an ironical smile was my first reaction when I found Drake's stolen treasure in 1580 described as almost the chief cause of England's foreign investments of to-day; second thoughts did not much change my first impression.

Sometimes Mr. Keynes, like other advocates of what they feel to be a good cause, falls into the trap of looking at the world through coloured spectacles. The reader suspects that facts which support the argument are treated in a kinder manner and given more attention than those which oppose it. On page 363 we read: "In the United States factory output per head was 40 per cent. greater in 1925 than in 1919." Now, this is given as a proof of the rapidity of technical improvements in a discussion of what we can expect a hundred years hence. As such it is surely misleading, for the output in 1919 was abnormally low for reasons which had to do with the war. It would have been better to say that output per man hour was 28 per cent. greater in 1927 than in 1913. This gives a rate of progress of 2 per cent. per annum instead of 7 per cent.

On the whole, Mr. Keynes takes a very optimistic view of the recent world economic tendencies. He does not regard it as a serious possibility that the present world economic crisis might lead to a breakdown of the financial system and to a radical reform, which presumably during a fairly long period of reorganisation along lines of "Planwirtschaft" would considerably reduce output and keep the world on a lower standard than that of the post-war decade. "Because we have magneto trouble, we need not assume that we shall soon be back in a rumbling waggon and that motoring is over" (p. 139). The magneto will be repaired and the pleasure trip resumed at increased speed, we are told. Towards the end of the century we will have reached what seems now a fairy-land, where two serious problems will be how to provide us with three hours work every day without over-filling the world with goods nobody cares to consume, and how to prevent large-scale nervous breakdowns caused by idleness. Mr. Keynes' central thesis, he tells us in the preface, is "the profound conviction that the Economic Problem, as one may call it for short, the problem of want and poverty and the economic struggle between classes and nations, is nothing but a frightful muddle, a transitory and *unnecessary* muddle." While most people would perhaps agree that much of it could be escaped if man were a more sensible animal than he is, few will be confident that it is transitory.

I cannot in this brief review even touch upon all the important view-points which Mr. Keynes has contributed to the discussion of the peace treaty, the industrial organisation of society, and monetary reform. There is much in this volume which gives the reader a sense of pure intellectual delight. "The End of

Laisser-Faire" will probably retain its place, when most of the last decade's literature has been forgotten. In many places the argument is so closely reasoned, so well balanced that, although it is void of all ornaments, it gives the reader an æsthetic sensation. Read, for instance, what the Treasury Committee on Currency ought to have said to Mr. Churchill before the return to the gold standard (pp. 251–53).

Nor can I discuss the various places where I think there are slips in the theoretical reasoning. Two examples only: On page 10, in a discussion of the reparation problem, we are told that German exports of woollen goods will not rise but drop. "An increase is impossible without the raw wool, and, having regard to the other claims on supplies of raw wool, a decrease is likely." Surely, if the manufacturing of woollen goods can be cheapened in Germany compared with elsewhere, this country will, *ceteris paribus*, get a larger share of the raw wool.

Mr. Keynes asserts that during a depression "neither the restriction of output nor the reduction of wages serves in itself to restore equilibrium" (p. 138). This statement and the pages which precede it make a very complicated problem much too simple. Would not a restriction of wheat-growing by 5 per cent., which might easily raise the wheat price by 50 per cent., increase the purchasing power of some countries and classes which have had to reduce their demand more than others? Would this not counteract a maladjustment and establish a better balance in the economic system? As to wage reductions, they may change the business man's anticipation as to future costs, prices and profits in a manner which may increase real investment. More directly, they might allow a greater volume of goods to be produced with a certain volume of credit. The influence of wage reductions on credit and purchasing power depends upon the circumstances in the individual case; about this question "all short statements are wrong."

A great deal of Mr. Keynes' proposals of economic action at various dates in the last decade have been based on the "over-saving" idea. I am a little doubtful whether, under the conditions prevailing in Great Britain in 1925–29, the fairly simple reasoning is adequate, but during a depression like the present one it is certainly essentially correct. However, there seems to be one difficulty. If people save very little towards the end of the depression, how then can the liquidity of the financial system be restored and the long-term rates of interest be speedily reduced? In other words, cannot the financial normalisation

in a narrow sense be speeded up by savings which temporarily reduce production? I cannot but feel that much remains to be said on this question.

It is tempting to embark on a discussion of tariff measures during periods of depression. Mr. Keynes has added an apologetic footnote to his proposal of a general tariff in March 1931: "somewhat in desperation, I made various suggestions." While the tariff reforms now introduced in Great Britain will no doubt prove harmful not only in the long run, but fairly soon, it seems to me beyond doubt that more "scientific," temporary obstacles to imports during a depression, if they do not call forth violent retaliatory measures, can help to maintain the volume of output in the "protecting" country.

I have dealt with less than half of the points I intended to touch upon, and with only a small percentage of the topics about which Mr. Keynes has something interesting to say. Indeed, it is true of all these essays that, whether the reader agrees or disagrees, he is so very interested and stimulated by his contact with Mr. Keynes, that his own future thoughts cannot but be different than they would otherwise have been. Perhaps fifty years hence, when, in spite of a managed currency system, poverty and hard work have not yet disappeared, economic historians will find that Mr. Keynes has been more successful in persuasion than in prophecy.

BERTIL OHLIN

The Value of Money. By TJARDUS GREIDANUS. (P. S. King & Son, Ltd. 1932. 15*s*.)

THIS book is both useful and highly suggestive, but it is not one which can be adequately treated in a review of normal length. The argument divides itself into two sections. The first presents a valuable summary and criticism of the various approaches to the problem of the value of money, including those made by ancient philosophers and medieval writers. Separate chapters are devoted to eighteenth- and nineteenth-century writers, and still more valuable chapters deal with the problem as viewed by modern writers in the United States, Germany, France, Austria, Scandinavia, and our own country. This part is in itself a useful addition to current English literature, since it includes a discussion of an imposing list of authorities such as Fisher, Cassel, Schumpeter, Wicksell, Verrijn Stuart, Aftalion, Böhm-Bawerk, and the six leading monetary theorists of this country, while a separate chapter is devoted to the *Treatise on Money* of Mr.

Keynes. The second section of the book deals with the author's own " yield theory " of the value of money.

The problem with which the author is concerned can be stated briefly. It is to offer an explanation of the value of money at any moment, most theories being concerned with variations in the value of money. In that connection modern monetary theories might be said to divide themselves into two broad groups—those which introduce a rather special apparatus of reasoning different from that which is employed in connection with ordinary problems of exchange value, and those which endeavour (rather unsuccessfully, in the author's opinion) to adapt the marginal utility theory of value to the theory of money. Mr. Greidanus has endeavoured to carry this second mode of approach to a more satisfactory stage than it has hitherto reached, since " it will always remain a serious shortcoming of the theory of marginal utility . . . if it should be impossible to explain the laws governing exchange in the important chapter of economic science which deals with money " (p. 107).

The mechanistic theories of Fisher and Cassel fail, according to Mr. Greidanus, to explain the type of causation which decides why prices are what they are, though they may explain why prices rise or fall. These theories, which introduce the notion of velocity of circulation, regard that velocity as determined exclusively by objective factors or technical considerations. " The price level has therefore been determined irrespective of the will of the participants in the exchange transactions. And since these participants determine the price, hence the price level, when their transactions are concluded, we arrive in this way at an insuperable contradiction " (p. 65). Again, the so-called " income theory " of money is criticised because it " determines rather the marginal utility of the income than the marginal utility of money. It is an income theory, not a money theory " (p. 134). And the attempts to proceed to the theory of the value of money by a study of subjective factors have generally regarded the subjective value of money as a derived conception in a manner which leads, as in the case of Mises, to a form of circular reasoning. If money has no independent marginal utility, the marginal utility theory of money breaks down, " for if the money buys more commodities (has greater value in exchange), the marginal utility is greater, and if the marginal utility is greater, the value in exchange is higher. We are then in the vicious circle. According to this explanation, money might have any value in exchange " (p. 112). " We do not know this derived marginal utility until

we know on what conditions we can obtain commodities against money. It can therefore not be serviceable to us in the solution of the problem of the value in exchange of money" (p. 163). The "cash balance" theories also which start from the assumption that individuals decide to keep a certain proportion of their resources in the form of money, while they represent an improvement on the ordinary mechanistic theories, are criticised, on the ground that "we can compute the proportion of the resources which we hold in the form of money from the knowledge of the value in exchange, *not*, inversely, the value in exchange from the proportion of the resources which we hold in the form of money" (p. 153).

Mr. Greidanus's positive theory is based upon the view that "the most essential function of money is not buying, but being held at command in order to *be able to act as buyer if the opportunity occurs*" (p. 167. Author's italics). Historically, the articles which were selected to serve as money were chosen for the economic quality that they were readily marketable or generally desired. These articles were readily marketable apart from their use as money, but once they came to be used as money, their marketability was increased still further. Incidentally, Mr. Greidanus does not accept the view that a stable price-level is a guarantee that justice in the creditor-debtor relationship will be preserved, "for in times of scarcity the sacrifice that the debtor has to make to settle his debt would be greater than in times of abundance" (p. 207). In addition, he finds a practical objection to monetary control with a view to stability in general prices. Under normal conditions, a shortage in supply, as in the case of a bad harvest, will raise the price of a particular commodity, but if the price-level is kept constant, other prices will be forced down, thereby increasing the difficulties of other producers; "the producers who have been able to produce less receive part of the compensation through the higher prices of their products, but the other producers now get smaller proceeds from their articles than would have been the case had the money not been managed. The whole production consequently gets into difficulties" (p. 208). This, of course, hardly meets the entire point, since money must be managed in some way or other.

A very full analysis of the economic advantages which are obtained when stocks of commodities are held by traders and consumers is made the basis for a study of the advantages of holding stocks of money. A trader holds stocks in order to further his trade and increase his profits, but there are limits to

the extent to which it is worth his while to hold stocks. Money is the most marketable commodity, and stocks of money will be held for the same general reasons which lead to the holding of stocks of other commodities. In some cases it will be worth while for a trader to hold larger money stocks than in others, for "if a shopkeeper sells goods to his customers which he can immediately buy again from his suppliers on fairly constant terms, a somewhat considerable stock of money is of comparatively little service to him. . . . But if the goods are little marketable, so that he can replenish his stock only at long intervals, and possibly unexpectedly, and this at greatly fluctuating prices, he must also have an ample supply of money at his command" (p. 236). The basis of the money stock which is held is "the expected profit the stock of money will yield" (p. 237). The services rendered by a money stock, however, are subject to the law of diminishing returns, and similar considerations hold good with regard to the money stocks held by consumers. "The first stock of gold for monetary purposes will have to ensure that the consumers can buy the commodities which they will almost certainly want to buy, until the stock of money can again be replenished. Then a less urgent need of ready money will remain, *i.e.* the need of a certain reserve for purchases which they may possibly want to make" (p. 250). In this way an attempt is made to arrive at what might be called a productivity theory of money, which has at least the merit that it employs the same general apparatus of reasoning which is employed in other sections of economic theory.

In addition, Mr. Greidanus recognises other factors which influence the demand for money; these include future possibilities, the stability of the value of money, and what is called the "friction of the circulation." With regard to the last of these, "part of the total quantity of money is held in a way which, as regards the utility which it yields, cannot be compared with that of the individual stocks of money. It is, as it were, owing to the frictional resistance that part of the medium of exchange is not usefully employed in furnishing the holder with the conveniences of being able, at any moment, to buy whatever he wishes, but remains inactive, for let us say technical reasons" (p. 283). Paradoxically, money is idle when it is in transit; gold in transit from one country to another cannot render services as stock of money, and as in the case of empty railway carriages, the earnings obtained when money is not idle must make up for the loss of earnings when it is idle.

The precise character of the alleged "yield" of money has to be noticed. The ordinary view is that money which is held in stock yields no interest. For Mr. Greidanus "the *possession of the readily marketable intermediate good offers an advantage in exchange transactions to the holder. This advantage results in a profit in the exchange*, and this profit is then the interest, which, though *not directly visible, is nevertheless present*" (p. 292. Author's italics). The remainder of the book deals with credit instruments and their implications.

D. T. JACK

St. Andrews.

Value and Income. By A. E. MUNROE. (Harvard University Press. 1931. Pp. 216. 15*s*.)

PROFESSOR MUNROE is concerned to explain the process of the valuation of wealth, considering that values are reflections of preferences which establish themselves in the structure of our desires. The form rather than the substance of this analysis is novel—the philosophy of this view is given, for example, in Professor Laird's *Idea of Value*—and, except for a difference of emphasis, one is aware of much the same attitude in Sir Sydney Chapman's *Outlines of Political Economy.* In his exposition, however, the author gives a new meaning to the term "cost," which is apparently the result of choice. Thus, the costs of production "are those sacrifices . . . which are the necessary condition of producing a given good, or, in more technical terms, of increasing the sum of utilities." These sacrifices may be "satisfaction costs—those uses of our time and energy we forgo when we engage in 'productive' activity; consumption costs—the book we cannot buy if we go to the theatre; efficiency costs—those increases in productive capacity which are precluded when resources are used in a particular way." According to the purpose for which they are incurred, these costs may be costs of acquisition.

These costs are not designed as tools for that ultimate analysis economists are wont to hope for when considering such a concept. Indeed, that they are entries in each private psychic ledger, and not of a scientific and concrete world, is apparent in that they may be sacrifices, increases in productive capacity or uses of our time and energy. Each of these has its influence on valuation, for each "cost of acquisition" is an influence—though at times barely discernible—either upon our scheme of preferences or the price we will pay for utilities, and each "cost of production"

has its influence upon the things, and the amount of them, that we procure.

The values produced, they are distributed as income to the various classes of producers, so that Professor Munroe's second task is concerned with an explanation and a discussion of the factors influencing the magnitude of wages, interest, rents and profits. Again, Professor Munroe's conclusions, as is to be expected in a book of such a character, are less interesting than his analysis. His analysis, moreover, is of such detailed character and is so stimulating and challenging that any comment that is not useless would necessarily have to be minute. It may be said, however, that his treatment of consumer's surplus and partial monopoly, in particular, are not impressive.

In his treatment of the latter problem, Professor Munroe bases his analysis on the hypothesis that "if each would-be seller has only one unit . . . to dispose of, the entire supply will be thrown on the market; for one unit cannot be withdrawn without leaving some seller with his entire stock on his hands, and none of them will be willing to accept this in order to ensure a higher price for the others." The introduction of the word stock suggests that under monopoly the problem of valuation is one concerned with a fund of wealth, but this is so clearly out of accordance with the title and the general treatment of the word, that the suggestion must, surely, be disregarded. The hypothesis is not true, for example, when applied to the supply of labour, and it does not necessarily lead to the following conclusion—that "the amount which the market is called on to absorb, when any holder tries to sell one more unit, is not one unit, but one for every holder." The analysis of unstable equilibrium under conditions of multi-holder or multi-producer monopoly must of necessity be difficult and intricate, and can lead, in general, only to an indeterminate solution. The tools forged in this book do not appear sharp enough for this task. The conclusion that where "the number of sellers is greater than the number of units which it would be to the advantage of the monopolist to sell, market price will always be lower than the monopoly price," might conceivably be useful when considering the supply of battleships, but it cannot in the nature of things be very helpful if we are considering the supply of soda crystals.

Finally, one must welcome this volume for its subject and its treatment. In a dynamic world static economics is in danger, if not of falling into actual disrepute, of remaining in a backwater both neglected and spurned: and when so much remains to be

done in theoretical economics it is reassuring to find the danger being averted. And this is especially so when new tools and a fresh technique are brought to the task.

J. STAFFORD

The University, Manchester.

The Monopoly of Credit. By C. H. DOUGLAS. (London: Chapman and Hall. Pp. 128. 3*s.* 6*d.*)

IT is now thirteen years since Major Douglas' work began to appear in the *New Age*, nine since Mr. Orage abandoned his first attempt to expound it to the intelligentsia. In spite of the extraordinary publicity it has received, only the most enthusiastic Social Credit propagandists would claim that their doctrine has made progress. Faced with the indifference of laymen and of economists, a movement less convinced of the perfection of its *credo* would have wondered whether complete failure to attract intelligent support might not be due to grave defects in the presentation of its case. But the Credit Power doctrinaires, like the Marxists, remain self-satisfied: the only matters that worry them are the obtuseness of the public, the contrariness of economists, and the "psychology" of the bankers. To Major Douglas, the crisis and collapse of credit have merely confirmed his original ideas, for such a detail as a fifty per cent. disparity of price-levels seems quite negligible compared with the fantastic "deficiency" of purchasing power which he believes he has revealed. He has learned nothing from the events and controversies of the last decade; instead, he has enunciated a new "theorem."

Major Douglas is the antithesis of Dr. Hayek. The latter argues that neither crisis nor "over-production" would occur if the amount of money were only kept constant, since—without the baneful stimulus of forced savings—investment and enterprise would be restricted to what was safely profitable. Major Douglas, on the contrary, believes that

> "it is impossible for a closed community to operate continuously on the profit system, if the amount of money is not increased, *even though the amount of goods and services available are not increased.*"

This sounds like Marx, but the Major goes far beyond even Marx's assumption of shortage of purchasing power from the persistence in prices of Constant Capital—the capital consumed in production. Three times in the present book he repeats in

identical words "what is popularly known as the A plus B theorem," and once (but in italics) a new "proposition" which, however, is "fundamental." The latter, as quoted recently by admirers (in the *New Statesman*) *tout simple*, appears quite meaningless, but read in its context seems to be nothing more than an incomprehensible version of the theory associated with the Pollak Foundation, the rather large assumption of which is that the amount of money in circulation remains fixed. But Major Douglas has a genius for complicating the obvious which is only equalled by his faculty for simplifying what is complex. Thus he considers that a fall of prices offsets the consequences of falling costs—instead of vice versa—for, taking a static view of the problem, he regards reduced costs as diminishing producers' income, and falling prices as increasing consumers' purchasing-power. It was hardly surprising, therefore, that he propounded a curious monetary equation.

He endeavoured to equate the national income, not with the goods and services that consumers buy, but with "total prices," and he naturally found a discrepancy, which he concluded—correctly, of course—was accounted for by means of payments other than income, *i.e.* by credit. But instead of going on to inquire into the conditions governing the supply of money, and whether the quantity and direction of credit could safely be entrusted to the management of the central and other banks respectively, he announced that there must be an increasing shortage of purchasing-power—unless there was an increasing "issue of money for capital production"—a proviso which his followers generally omitted, but which anyway was irrelevant, since practically all his so-called "B" payments are for goods in process of production, not for new capital. From the statement that *changes* in the flow of credit are largely dependent on central bank policy, Major Douglas infers that almost all purchasing-power "proceeds from the banks in the form of a loan," and, regardless of the fact that most of this credit is used for financing the transfer of goods from producer to retailer, he suggests that such short-term funds ought to be in the possession of consumers —not as loans, but as dividends!

His new contribution is to insist that

> "Sales between *consumers* are an important factor in distribution, and require that the *money value* of 'second hand' goods shall be in existence until the goods have physically disappeared"!

But why stop at second-hand goods? If consumers should retain as purchasing power the value of goods which they have already used, why should they not claim the value of potential production? The fact that they would in either case spend such "dividends" on the most attractive *present* goods seems unimportant to Major Douglas, for he proposes that all prices should be regulated according to the *general* ratio of production to consumption. But since the price-level of primary commodities is to be uncontrolled, the enormous increase in consumers' purchases would cause a corresponding rise in primary prices, and this would be quickly carried through to the prices of consumers' goods, leaving the relation between prices and incomes more or less as before.

Major Douglas' chief error was to ignore the difference between price-levels as well as the meaning of changes in that of primary products. Agreeing with "the bankers" that "prices" ought to be "allowed" to fall with improvements in production, he failed to see that, so long as a sensitive index is maintained at an equilibrium with contractual obligations, there can be no real shortage of purchasing power.

GEOFFREY BIDDULPH

Some Aspects of the Tariff Question. 3rd Edition. By PROF. F. W. TAUSSIG. (Harvard University Press. Pp. 499. 20*s.* net.)

THE first edition of this well-known book appeared in 1915 and the second in 1918. The four Parts which composed the book in these editions are here reprinted without any significant change, and a new Part V is added which brings the story up to 1930.

The "main purpose" of the volume, declared Professor Taussig in his original Preface, "is to consider and illustrate some questions of principle in the controversy on free trade and protection. The three chapters which constitute Part I state these questions and summarise the main conclusions. The succeeding Parts give illustrations and verifications drawn from the history of several industries—sugar, iron and steel, and textiles."

This is a difficult task. It means comparing what has actually happened with what would have happened in the absence of a tariff. It means estimating to what extent any series of events, occurring over time in a changing world, was due to the tariff. Inevitably the conclusions reached will depend partly on the judgment of the investigator.

It is needless to say that Professor Taussig has performed this task most admirably. The new chapters maintain the high standard of the old. One comment, however, may perhaps be made. I feel that in the first Part, and throughout the book, rather too much stress is laid upon the effect of Protection on the price of the protected product and rather too little upon its effect on the directions in which labour and resources are employed. "The essential and characteristic loss from protection," we are told, is that "the price to the consumer of the domestic commodity was higher by the amount of the duty" (p. 455). A Protectionist might reply that, on the other hand, money incomes had been raised by the tariff, so that the net result might be a "gain" instead of a "loss." It seems better to regard "the essential and characteristic loss" as this: that consumers, year by year, get an assortment of goods and services under Free Trade, which they prefer to the assortment they would get under Protection.

In some cases an attempt can be made to "verify" this. Suppose over a period of years consumers' tastes and methods of production remain the same, but the tariff on the products of industry A continuously increases. Then we should expect the quantity of product per worker to fall in A and to rise in non-protected industries, thus showing that the price-changes due to the tariff had led to more expansion in A and less in non-protected industries than consumers really desired. Thus in Australia, from 1911 to 1928, with a rising tariff on manufactures, the volume of product per worker increased less than 10 per cent. in manufacturing and over 40 per cent. in (non-protected) agriculture, while resources per worker increased more in the former.

Professor Taussig's inquiries, notably in the case of sugar, into costs of production inside and outside the protected area, alternative uses of land used for growing protected sugar, and so on, come to much the same thing and are probably a safer and more convincing method of demonstration.

Part V covers the period 1910 to 1930. The branches of production covered are again Sugar, Iron and Steel, Wool, the Silk Manufacture, the Cotton Manufacture, and Woolless and Worsteds. There is also a chapter on the remarkable development of Rayon. Professor Taussig and Dr. White must have done a great deal of work in getting all this new material. More than ever, the book is a valuable contribution to the industrial history of the United States.

F. C. Benham

Future Trading upon Organised Commodity Markets in the United States. By G. WRIGHT HOFFMAN. (Philadelphia, University of Pennsylvania Press; London, Oxford University Press, 1932. Pp. xvii + 482. 28*s.*)

IN addition to holding the post of Professor of Insurance in the University of Pennsylvania, the author is Consulting Economist to the Grain Futures Administration of the United States Department of Agriculture, and, as was to be expected from such credentials, he has written a book which will remain standard on its subject for a long time. His object, he says, " has been to describe accurately the nature of future trading," and in this he has fully succeeded, giving not only a clear account of the development and organisation of the markets, but also of their economic effects on manufacturing business. " There is perhaps," he says, " no place in the world where speculation is carried on with such care-free abandon as in the United States. It sweeps along from one object of interest to another, invading, at various times and with varying degrees of intensity, every economic activity of this country." " As it is applied to the field of future trading, speculation is an attempt to profit from uncertain fluctuations in the price of either wealth or rights to wealth. . . . The field of future trading is thus a part of the broad field of risk, taking the form of speculation for those who assume the risk and the form of hedging or insurance for those who transfer the risk of uncertain price changes." " In the United States, future trading had its origin just prior to the Civil War in grain and pork products. Cotton followed in the latter part of the sixties, coffee in 1882, cottonseed oil in 1904 and raw-sugar in 1914. Since the World War, a long list of products has been added, including rubber, cocoa, eggs, butter, hides, silk, cottonseed and cottonseed meal, mill feeds, tin and copper. Classified by commodities, the list includes at the present time (1931) over twenty-five individual products, and the future markets for those commodities also number more than twenty-five. Their total volume of trading during the year 1929 amounted to approximately 42 billion dollars."

Confining himself mainly to grain and cotton, Professor Hoffman traces the origin of speculation in grain futures to the practice of buying and selling grain by contracts " to arrive," which permitted the possibility of selling " short." The bulk handling of grain at Chicago and the grading of the grain made it possible to draw up a standardised contract which formed " an excellent instrument for speculation." In cotton the practice developed

in Liverpool of buying and selling supplies in transit, and during the Civil War enormous speculation developed which was facilitated by the laying of the Atlantic cable; from these practices a formal exchange with rules for trading evolved. Two chapters are devoted to an account of the marketing of physical grain and cotton, and a third to an analysis of the future contract and its uses. The emphasis here is laid on the fact that "in dealing in futures one is dealing not in the actual commodity, but in *claims* on or *contracts* for the commodity." Such rights may be traded in to twenty times the actual crop, but "the crop itself is bought or sold perhaps on the average not more than four or five times involving the various steps in marketing." The first part of the book concludes with 110 pages on the market structure, the organisation of exchanges, trading procedure, and the clearing of future contracts by buying in or selling out—all full of most interesting detail.

Part II, occupying about half the book, deals with "price aspects and problems of future trading." "Under the present plan of marketing and merchandising commodities in which future trading plays an important part, cash trade interests everywhere depend upon a close correspondence of cash and future prices to hedge their trade positions and to determine daily the buying and selling limits for their products. In fact, were there no necessary and continuing relationship between cash and future prices, there would be no economic justification whatever for future trading." "In the larger price movements cash and future prices advance and decline together," because at the end "future contracts *can* be converted into the cash commodity if either the buyer or the seller so desires." The future market is unlimited in its supply of "rights" and has the greater bulk of information, so prices move easily there and cash prices follow owing to the habit of hedging cash commitments. Variations between cash and future prices arise because as the season advances cash prices include a carrying charge for storage, and because, since a future provides for the delivery of any of a number of grades at the seller's option, "the future will reflect that grade and class which at any given time is the most profitable to deliver" and, "as the month of delivery approaches, it will also reflect the bottom of this particular grade." Several grades of a commodity are, as already said, deliverable on a contract, but only at additions to or subtractions from the price of the basis grade. There are various ways in which these differences are fixed and they frequently disturb the relationship of cash to future prices. The

supply of futures being indefinite, the only restriction on volume of trading is the amount of margin traders have to put up. As for every transaction of purchase there must be a sale, short selling is not necessarily bad. It is the manner of trading that may be questionable, and large traders do not seem to create prices, but to utilise the varying news of the day.

Hedging is a shifting of risk. If A buys 5000 bushels of wheat, he can avoid the risk of a fall in price by selling an equal quantity of wheat futures to a speculator. The hedger is thus protected against unforeseen major movements in price, but he still retains an interest in the relative changes occurring between cash and future prices which will determine his profit or loss. Space will not permit us to deal with the two fascinating chapters on this subject. As to the prospects of the continuance of trading in futures, Professor Hoffman points out that it is incompatible with modern State-fostered methods of co-operative trading, and that it must decline unless reformed by a more adequate code of rules and more rigid enforcement of those rules. H. W. MACROSTY

Railway Economics. By K. G. FENELON, M.A., Ph.D. (London: Methuen. 1931. Pp. 228. 5*s.*)

Transport and Communications. By K. G. FENELON, M.A., Ph.D. (London: Pitman. 1931. Pp. 101. 2*s.* 6*d.*)

DR. FENELON'S book on *Railway Economics* is a commendable introductory manual to the subject. Within the limits of the space he has allowed himself, he gives an admirably comprehensive description of the present organisation of the British Railways, and of the services they provide for the trader and the passenger. He discusses particularly well the relative merits of the "departmental" and "divisional" systems of railway administration, and he goes very fully into the many different classes of passenger traffic. The reviewer was interested to learn that the British affection for small and privately owned wagons was more the fault of the traders than of the railways; and he confesses to a distinct glow on learning that the G.W.R. had recaptured for Britain the world's speed record!

Labour conciliation machinery, the history of amalgamation, the Railway Clearing House and the Railways Act of 1921 are each discussed adequately, and Dr. Fenelon gives an interesting account of early classifications and rate structures.

The theoretical chapters are concerned chiefly with the theory of railway rates. These chapters contain the most valuable part of Dr. Fenelon's exposition, though they are not, perhaps, among

the best in his book. In them a theory of railway rates which explains why the railways *can* charge different rates for carriage of the different commodities, and not merely *why* they do, is made available in a text-book of railway economics. Dr. Fenelon follows Professor Pigou in regarding the railways as a discriminating monopoly. He accounts for the classification of freight and the charging of differential rates as the attempts of a monopolist to achieve a maximum net revenue within the limits permitted by the law. Dr. Fenelon dismisses entirely Professor Taussig's misapplication of the theory of joint-cost to a case where the vital condition of joint-supply is lacking, and he recognises that Acworth's principle of "charging what the traffic will bear," if it is to mean anything at all, can only mean charging a rate calculated to yield a maximum net revenue under conditions of monopoly.

Dr. Fenelon is to be congratulated on having gone thus far towards assimilating "railway economics" to the general body of economic thought. It is to be regretted that he did not go further, and examine more closely the doctrine of "place utilities." On p. 125 he finds the theoretical basis of rate-making in the difference in place values. "For example, if the price of a commodity were 18*s*. in A, and its price in B were 15*s*., the maximum rail rate which could be charged would be 3*s*." But surely the difference in price between A and B may itself depend on the railway rate which is being charged? If the railway charged more or less than 3*s*., less or more of the commodity would presumably be carried from B to A, and, consequently, the price in A, depending, *inter alia*, upon the supply made available there by the rate the railway is charging, would be more or less than 18*s*. This doctrine of "place utilities" provides no more than a method of ascertaining the rate a monopolist would charge without looking in his rate-book. It does not say how that rate is determined.

The discussion of the relations of road and rail transport contains a good account of the measures of co-ordination the railways have been able to adopt since they obtained the Railway Road Transport Acts of 1928. But the principles underlying the relations of road and rail transport receive scarcely adequate attention. The carrying of goods by road to-day presents a case of almost pure competition. The railways present a case of monopoly, "simple" (in Professor Pigou's language) by nature, but permitted a certain degree of discrimination by the law. The margin of competition between road and rail at present must

therefore be largely arbitrary. It will depend upon the relation of the rate-structure of the railways, *i.e.* upon the classification of freight and the scale of differential charges, as determined by the law, to the costs of carrying each class of goods by road, determined by the free competition of road hauliers. The significance of this arbitrary element in the situation is not examined. It may imply that a solution of the problem is only to be found in a complete break from past practice, possibly in the direction of the abolition of the classification.

Dr. Fenelon deals concisely with railway electrification and the Weir Report. Finally and impartially, he considers State ownership and operation of railways.

In *Transport and Communications* Dr. Fenelon attempts to cover the whole field of his subject; shipping, railways, roads, canals, post offices, telephones and telegrams. The space available is, however, far too small for anything more than a very superficial survey. The book should serve well to refresh and stimulate the memories of those about to enter the examination room. For the unlearned, it suffers from too great a condensation to afford more than an outline of the subject dealt with.

G. J. Walker

University of Birmingham.

Planwirtschaft und Verkehrswirtschaft. By Carl Landauer. (München und Leipzig: Duncker und Humboldt. 1931. Pp. 223. 9*m.*)

Thirty years ago, the most distinguished academic representatives of economics—on the Continent of Europe at any rate—were, in the majority of cases, in favour of some form of State Socialism. To-day they are predominantly liberal: in the classical sense of the word. On the other hand, thirty years ago Europe was still in the age of *laissez-faire* capitalism. Since then we have witnessed a tremendous extension in the scope of State interference—legislative regulation in the sphere of prices, production and distribution—and a similar growth of monopolised, or virtually monopolised industries. It is this contrast between the theoretical strengthening of the liberal case and the growing decline in the practical application of its ideas which has prompted Dr. Landauer to write his book. The author (who is apparently an exception to the rule he himself formulated, as he is a theoretical economist and a Socialist at the same time) proceeds at first to examine how far the free play of economic forces in present-day capitalism secures that maximisation of individual

satisfactions from a given quantity of means, the assurance of which is the chief *raison d'être* of any economic system; and if it does not, what are those "anti-productive" phenomena of the actual Exchange Economy which prevent it from functioning in accordance with the ideal type of Exchange Economy presented in theory. He then proceeds to set out the outlines of a "Planned Economy," a system which would be free from any of the grave objections raised from the theoretical side against a collectivist system of production. Finally, he points the way to the practical realisation of his ideas. The book is therefore at once critical and constructive.

As far as the first part is concerned, one can find little to disagree with—little, at least, that is important for the main trend of his argument. Dr. Landauer's main thesis is that, as time proceeds, the capitalist system becomes progressively less well adapted to the task of adjustment to the continuous changes of data; not on account of external limitations upon its working, but for causes inherent in it. His main concern is the problem of monopolies. According to the author, the tendency to monopolistic combinations is inherent in the competitive assumptions of theory; there being a permanent source of instability arising —quite apart from peculiarities in the technique of production—from the fact that all producers can derive a net advantage from limiting output to the optimum monopoly point; and they will show a tendency to do so, once the true and permanent advantage of combination is recognised. "It is illogical to assume that an Exchange Economy develops to perfection within the practical limits and yet excludes monopolies. One thus assumes that there is a perfect communication between buyers and sellers, while any understanding between the different sellers is prevented." The answer to this—by no means new, but very attractive—argument is, that under assumptions of *theoretically perfect competition* not *all* producers can derive a net advantage from combination; as each producer supplies only an infinitesimal part of the total output, every limitation of output presupposes the exclusion of some producers, and these, whoever they should be, will not be parties to the bargain. Secondly, even if this factor is disregarded, perfect competition assumes perfect mobility from one industry to another; so that producers in other industries exposed to competition will have a net advantage in entering the field of monopolised industries. Dr. Landauer's argument would require, therefore, an understanding not only between all producers in one industry, but between all producers in all industries;

in that case, however, the advantages of monopolistic combination would largely cancel each other out. (Largely, but not entirely. The latter would require the assumption not only that all producers are also consumers, but that all consumers are entrepreneurs.) Such a situation would not be stable either, unless we assume that the life of each individual firm is unlimited. In case it is not, some firms may derive a net advantage in breaking away from the combination, as, *within the limits of their lifetime*, the immediate gains made by charging lower prices may more than outweigh the permanent loss caused by the return to competitive conditions.

Both these objections fall to the ground, however, once the assumption of theoretically perfect competition is dropped and the actual situation is considered, where the optimum output of the individual firm is not an infinitesimal part of the total output. The larger this optimum in relation to the output of the industry as a whole, the greater the proportion of overhead costs to prime costs, and the higher the initial expenses of a firm in relation to its total expenses, the more important is the practical implication of Dr. Landauer's argument. Neither our first objection (that combination requires the elimination of some producers) nor the second (that combination will call forth the entry of new competitors from outside) will then be necessarily effective. We can agree with the author, therefore, that as technical progress causes a growth in the size of the "equilibrium firm," we have to expect a growing monopolisation of industries.

In the following sections, dealing with the effects of monopolisation, the shortcomings of our existing theoretical knowledge become more strongly felt. What are the effects of a general tendency towards monopoly? Does the system under such condition still tend towards a stable equilibrium? If so, what kind of equilibrium? Would it still represent an "optimum" distribution of resources? Economic theory is not yet able to give a clear answer to such questions. The theory of monopoly, as we know it, assumes monopoly of a single industry, surrounded by a sea of competition; and in the circumstances it is little more than a scientific toy. A *general* theory of monopoly, investigating the conditions of equilibrium when all producers, or all consumers, or all owners of productive agents, or any combination of these three, are monopolised, is still lacking. Yet it is clear that only with the aid of such a theory can we examine the effects of growing monopolisation on the economic system. Dr. Landauer seems undoubtedly right in saying (in reply to

Dr. Georg Halm's argument in *Die Konkurrenz*) that monopolisation diminishes the social dividend; because the factors which are released in the monopolised industry can only find employment in less productive uses. The greater the number of monopolised industries the less can the actual distribution of resources be said to correspond to an optimum distribution. And it is not clear whether under conditions of complete monopolisation all factors can find employment. It is true that every fall in "factor prices," *e.g.* wages, pushes the optimum monopoly point "farther to the right," but it is quite possible that the level of wages at which all labour would be employed is well below the subsistence level.

There is a series of other problems arising out of the phenomenon of monopolisation (*e.g.* unemployment, a slowing down of technical progress, lack of flexibility, growing cyclical sensitiveness of the system) with which Dr. Landauer deals more or less effectively. But even if these are disregarded, the argument presented above is sufficient to diminish very greatly the theoretical case for a free Exchange Economy.

Unfortunately, in the constructive parts of his book, Dr. Landauer has not been so successful. As is well known, the important theoretical objection against a Collectivist Economy—disregarding the purely technical side of the problem, such as difficulties of efficient management—is not that it will not be able to reach a position of equilibrium (meaning by the latter that all supplies, at existing prices, are equal to all demands and all factors are employed), but that it can reach too many such positions (precisely an infinite number), and it has no means of choice between them. The Socialist planning authority can equilibrate supply and demand by changing the price-relationships, or changing the relative quantities produced (or both); but it will not be able to decide unequivocally when to adopt the first policy and when the second. Even if we assume that a "free market" for consumption goods can be preserved, the methods of producing these goods will have to be decided arbitrarily; as the Socialist producer cannot, even if he tried to, find out the true displacement costs of the factors of production. This problem, which emerged as soon as the conception of "real costs" was abandoned, has so far proved insoluble. Dr. Landauer deals with it in a separate chapter, but his suggestions can hardly be regarded as anything more than a naïve attempt to conceive the hypothetical constructions adapted, for purposes of abstraction, in order to simplify reality, as if they were describing reality

itself. Imputation under Socialism, according to Dr. Landauer, can be secured in the following way: "One calculates how many tons of coal, how many millions of labour days, how many millions of acres of land, etc. are at the community's disposal every year; and one tries to find the optimum distribution by shifting every good from one employment into another until its optimal contribution is really reached." It is hardly necessary to point out that (i) in a modern, developed system, consumption goods are not produced from "available" means of production directly, but only indirectly, through producing a host of other production goods, whose justification again depends on the relative scarcity of the original means of production; (ii) the differences between the productivity of the same factor in different employments can only be decided when the price of the factor, or at least the reaction of the movement of that factor on the price-structure of consumption goods, is already known. As however, it is, the discovery of the "true prices" which this process of trial and error intends to secure, the one can be deduced from the other only by the aid of a circular argument; (iii) in order to find out anything at all in this way, the different factors must be moved simultaneously, and not alternatively. If two industries, A and B, employ the same factors α and β, the results might be entirely different if only α is moved from A to B or if α and β are moved simultaneously in opposite directions. So long as "factor movements" are carried out alternatively (*i.e.* under not simultaneously valid conditions) the results disclose little about the true situation; while if all factors are moved simultaneously, any attempt to deduce factor-prices from the existing price-relationships of consumption goods becomes impossible; (iv) even if the above objections did not hold, such a process of trial and error would prove to be absurdly uneconomical, as all factors would have to be tried in all employments; and carrying factors from one employment into another involves a special cost—even in a Socialist State.

Nor can one regard as anything more than a *naïveté* Dr. Landauer's other idea that the Socialist State should impute at first to the factors of production the same values which were imputed to them under Capitalism. Socialism, if the term means anything at all, involves a change in the distribution of income; and a change in distribution always involves a change in the relative scarcity of the factors. The prices which factors received under Capitalism afford, therefore, no guide whatever to their true displacement costs under Socialism.

It is impossible to do justice, within a brief compass, to the host of ideas raised by Dr. Landauer in this connection. The chapters dealing with Socialism act more as a deterrent, in revealing the true magnitude of the problem, than as a stimulant, in suggesting solutions to it. In fact, if one re-reads the first part of his book in the light of the second, all, or nearly all, the objections raised against an Exchange Economy seem to hold, with still greater force, against a Planned Economy. If Dr. Landauer succeeds in destroying one's belief in the capitalist system—the first part of his book provides easily the best criticism of Capitalism written in late years—but seems to fail entirely in making out a case for an alternative, this is more to be regarded as a merit than a deficiency of his work. It is due to the scientific spirit in which the whole inquiry is conducted; a spirit which, despite the strong Socialist beliefs of the author, is remarkably free from political adulteration of any kind. And even if one cannot accept his conclusions, with the spirit of Dr. Landauer's work one can only have the strongest sympathy.

London School of Economics. N. KALDOR

New Survey of London Life and Labour. Vol. II: London Industries, I. (London: P. S. King & Son, Ltd. 1931. Pp. xvi + 492. 17*s.* 6*d.* net.)

THE selection of occupations included in this volume is of special interest, since they bear particularly on some of the most interesting and significant problems of London industry. Thus they include the main seats of the sweating, or one might almost say, the former sweating, system in the Clothing, Furniture and Boot industries. Casual Labour is represented by the Building industry and the Docks; and the treatment of the latter industry by Messrs. Lascelles and Ruck is perhaps the most attractive and readable in the book, interesting as are, to mention only two, the descriptions of Engineering by Mr. Turnbull and Domestic Service by Miss Collet. Moreover, the conditions in the Docks as here described show that evils emphasised by Mr. Lascelles in *Dock Labour and Decasualisation* in 1924 are already in course of being dealt with now, and that remedies which he and his co-author Mr. Bullock then proposed are being put into operation in London with some measure of success. Again, the effects of mechanisation and mass production are well illustrated both by the Engineering and Metal trades, which provide one of their chief fields, and, by contrast, by industries less adapted to their

use, such as Building. Finally, the vexed question of domestic service is interestingly treated.

The technical problem presented by the width of the field has been excellently met by the utilisation of individual investigators for the separate industries, whose work is co-ordinated and edited by the Director and Secretary. The result is to preserve the individuality of the detailed treatment and yet to give an essential unity to the whole. The admirable introduction by the Director contributes greatly to this, and serves to bring into due prominence the salient features of the existing position.

The treatment of individual industries follows largely the lines of the Booth Survey, thus facilitating comparison of individual trades at the two dates. The inquiry is not limited to the County of London, but extends to the whole of the Greater London area. Certain features of the previous Survey are lacking, notably the details as to housing, and the summaries of earnings of workers in individual trades, which showed the percentages obtaining different levels of income. But some omissions are inevitable in view of the more restricted space, since the intention appears to be to cover the industries of London in two volumes instead of the four of the Booth Survey; and in certain other respects the statistics are more complete in the present inquiry. The information on individual industries is clearly and interestingly presented; but in the case of the Clothing trades, with their numerous sub-divisions, a concentration of the wages information into a single section might perhaps not only have saved space, but also given a clearer picture of the position in the industry as a whole.

The Survey of individual industries confirms the conclusions of the first volume as to the general improvement of labour conditions in London; and further suggests that the greatest improvement has taken place where it was most needed. Thus not only have skilled real wages improved by 14 per cent. and unskilled by 28 per cent. between 1890 and 1930, but the improvement has been even more marked in the sweated industries. In many of the Clothing trades, for instance, the advance in real wages between 1906 and 1930 was as much as 40 per cent., and in these trades women's earnings are now not only well above the poverty line, but even exceed the figure laid down by Mr. Rowntree of the Human Needs Minimum for a single woman. Incidentally, one result of the Trade Boards Acts is that home work has ceased in many cases to indicate severe poverty and often provides a means of improving family standards or meeting special needs. There

appears, indeed, to have been a general levelling up of wages, with the consequence that liability to severe poverty has been reduced even more than in proportion to the increase in real wages. With domestic servants, for instance, wages were definitely lower in households having one or two servants in 1894–6 than in those keeping five or more, but the difference has now been very much reduced, and servants' wages in this respect are much more uniform.

Nor is this the only direction in which improvement has taken place; for both Sir Hubert Llewellyn Smith's Introduction and the relevant section emphasise the immense advance in the conditions of Dock Labour. Indeed, both express a doubt whether the present very favourable position of the docker relatively to other trades can be permanently retained. Nevertheless, the change is remarkable. "Irregularity of work has always been a feature of dock labour, but at least the irregularity is diminishing. The improvement in conditions is general. The docker is no longer a social pariah and his trade is becoming one to which fathers are glad to put their sons." Moreover, there is a corresponding change in the character of the dockers. "The Transport and General Workers' Union can claim credit for many improvements in conditions in London. But perhaps its greatest achievement is to be found in the greater self-respect and discipline of its members. Dockers of to-day realise that they are no longer the failures of industry, but members of a responsible organisation." The volume also contains references to excellent relations between the Unions and the employers in other industries.

Generally the improvement in Dock Labour suggests doubts as to whether the industry is now as seriously at fault in regard to casualisation as is sometimes suggested. Admittedly a great deal still remains to be done, before the position in this respect is entirely satisfactory. But the Registration Scheme has done much to check the evil. Further, stands for engagement of labour in the Port have been reduced to 200 from the pre-war 500, though this is still far from the total of fifty, which the late Mr. Orbell suggested as a practical minimum figure. The Survey also argues that really severe under-employment has been greatly reduced, and that the privation and degradation, which accompanied the pre-war system, have now been largely removed even from the most irregularly employed, thanks to unemployment insurance. Indeed, this result in the Docks, like the evidence given by Mr. J. F. G. Price before the Unemployment Insurance Commission as to its effects in averting severe distress in the textile industries,

supports the view that the proper course to take with the short-time system of unemployment insurance is that of reform rather than of abolition.

Certain other features may be briefly referred to. In the Building industry, ably described by Mr. Hugh-Jones, the system of tendering involves uncertainty as to the amount of work which a firm will obtain and variations in the type of it from contract to contract, thus preventing the keeping of regular staffs and aggravating irregularity of employment. Indeed, since the war certain influences have tended to increase irregularities. Possibly, however, the writer does not emphasise enough the growing specialisation of particular branches of the trade, which should permit of greater regularisation of work, though it is doubtful whether it has in fact done so.

Present wage arrangements in the industry are interesting in providing that unskilled wages shall be not less than 75 per cent. of the normal skilled rates. This represents an advance on pre-war, when the proportion was about two-thirds. The change illustrates the increasing strength of the labourers' organisation, and wage relations in the industry generally suggest that the skilled organisations are mindful of the interest of the other grades, and that the adjusting of wage rates within the industry is successfully dealt with. The arrangement also indicates a possible basis for relating skilled to unskilled wages, and, if this relation is a correct one, it implies that pre-war unskilled wages were unduly low and that post-war changes have tended to bring about a desirable rectification. In the industry as a whole real wages since 1890 are calculated to have risen rather less than the average, so that the sheltered nature of the industry does not seem, at present at any rate, to have increased its wages unduly.

The growth of mechanisation, specially noticeable in the Metal trades, has been found to have many favourable results. Sometimes it involves the disadvantage of a loss of the benefits of laboriously acquired manual skill, but even here there are compensations. It has created a new, if small, class of workers of the tool-setter and tool-fitter type, more highly skilled than the ordinary craftsmen, and the new types of machine-worker often replace less skilled types, with a consequent gain in skill. Moreover, mechanisation by permitting easy and accurate measurements of work, has largely removed the older Union objections to piece-work, and has facilitated the extension of payment by results, thus contributing a further influence to increase real earnings. Again, mechanisation, as in the Clothing industry, has

reduced irregularity of employment and especially seasonal fluctuations, both by reason of the need of keeping machinery fully running and by increasing opportunities of making for stock. A special case of interest is provided by the West End Millinery trade. "As recently as 1912, the numbers employed in August were about half those employed in May; but, owing to the much wider field of employment now open to girls, there is a shortage of skilled female labour in the trade and every effort has to be made to keep staffs together in the off season." Further, growth of large-scale factory production has not only led to an improvement in general conditions, but has greatly contributed to make the higher wages of the Trade Board trades fully effective and without loss of industry and employment. A few of the smaller Clothing trades, like leather-dressing and artificial flower making, have indeed declined, but this is attributed to influences, such as changes of fashion, quite independent of the Trade Boards.

The general improvement in London conditions is due partly to general influences at work to reduce poverty, and partly to the improvement in the economic and industrial position in London, compared with the Booth Survey. For at the earlier date London unemployment was above the average of the country, whereas in recent years the position of London has been definitely better than that of the country as a whole. Moreover, the tendency latterly has been towards a general expansion of London industry, largely by the growth of new industries in the outer ring of London. This is specially noticeable in the Metal trades, of which the Booth Survey declared: "London is becoming more and more a repair shop," and "only under special circumstances can a *bona fide* London manufacturer secure the order." But the present volume poincs out that "London is now becoming not less and less, but more and more, a centre of the engineering and metal industries." Various causes are at work. The recent growth of new industries producing consumption goods draws our manufacturers to the neighbourhood of the big London market, cheap transport and power facilitate development in favourable conditions on the outskirts of London, and there are various other influences summarised in the chapter on Engineering. The whole of the new developments are well brought out in the volume under review, which is a valuable addition to our knowledge industrial and economic.

N. B. DEARLE

The Social and Economic Aspects of the Drink Problem. By PROF. A. L. BOWLEY, PROF. A. M. CARR SAUNDERS, SIR JAMES HAMILTON, SIR JOHN MANN, MR. B. SEEBOHM ROWNTREE, MR. CECIL ROWNTREE, SIR EDGAR SANDERS, MR. F. D. STUART. (London: Victor Gollancz, Ltd. 1931. Pp. 180.)

THIS book is the work of a Committee formed, before there was any prospect of a Royal Commission on the subject, to inquire into the social and economic effects of the consumption of alcohol in Great Britain. Another Committee similarly appointed to deal with the medical aspects of the problem had already published its conclusions.

The present volume deals with the bearing of drink on industrial efficiency, and the relations between drink and poverty, and drink and crime—an ambitious programme undertaken with due regard to the difficulties involved. The chief problem was to secure impartiality, since the majority of persons interested in the subject are concerned either to prove that drink is the cause of all evil, or to explain away its apparent consequences. The Committee, therefore, chose both their field of action and their investigators with the greatest possible care: they appointed experienced and responsible persons and they selected districts with a representative diversity of population. They carried out detailed investigations in the Clydeside shipbuilding area, in various colliery districts in the North and Midlands, among the iron and steel workers at Middlesbrough, in the seaport of Liverpool and in the industrial cities of Leeds, Coventry and Luton.

Statistics quoted in the text and further elaborated in the Appendix show that the consumption of alcoholic drinks has diminished steadily and progressively since 1914. This change in the drinking habits of the population the Committee attributes mainly to the increase of prices consequent on heavy taxation, and the restricted hours of sale, and in a minor degree to low earnings and the presence of counter-attractions. In estimating the connection between sobriety and industrial efficiency, the investigators consulted Directors, Managers, Works foremen and Trade Union officials. The almost unanimous verdict is that there has been a large reduction in the consumption of alcoholic liquor, that even "occupational" drinking in heavy work tends to decline, and that the younger men more especially have changed their outlook and improved their standards of dress, manners and conduct. It is claimed that the improvement is in a large measure permanent; that increasing prosperity would not cause a set-back,

and that there is little prospect of a spontaneous demand from the rising generation for the abolition of the present restrictions. The writers cautiously conclude that under the conditions which prevail to-day "drink is not, directly and prominently, seriously impairing industrial efficiency."

Owing to enhanced prices the decline in consumption has not resulted in a saving of expense to the individual or the nation. A large proportion of skilled workmen are said to spend from three to five shillings a week on drink, while an expenditure of five or six shillings per week "from the dole" is not uncommon. The highest expenditure in relation to family income is to be found in the homes of the unskilled labouring classes. The conclusion arrived at is that drink is wholly or partly responsible for 25 per cent. to 30 per cent. of the poverty of a working-class district.

To assess the relationship between drink and crime, the Committee analysed the records of 9,341 prisoners in the Staffordshire area between 1911 and 1913; and investigated 198 cases of various kinds of crime in Liverpool, 183 in Leeds and 113 in York. They also inquired into 300 matrimonial court cases. Finally, a document was prepared on behalf of the Committee, by the Governor of one of H.M. prisons, dealing with the crimes of 250 "star" convicts, *i.e.* first offenders convicted of serious crimes. The conclusions drawn from the evidence was that of "common offences" 40 per cent. are attributable directly or indirectly to drink, of crimes of violence 25 per cent., of matrimonial cases 25 per cent., of cruelty to children cases 15 per cent. and of cases of assault and wilful damage 50 per cent. Professional burglars are, however, necessarily abstemious.

The impartiality of the writers of this very interesting human document is beyond question, but it may still be asked whether the methods chosen are fool-proof, and whether the evidence is sufficient to bear out the conclusions. In the chapter on Industrial Efficiency, which forms the major part of the work, the bulk of the evidence consists of the opinions of persons consulted. The writers do not claim that their methods of investigation are more than "the best possible in the circumstances," but state that the evidence on which they rely, though perhaps not "strictly objective in character," yet "possesses objective reality of an impressive kind." The difference involved in this distinction is perhaps not very apparent, but the reader who studies the evidence—and it will repay study—finds the weight of opinion so considerable, and the conclusions so cautious and restrained as to be thoroughly convincing.

H. REYNARD

The Costs of the World War to the American People. By JOHN MAURICE CLARK, Professor of Economics in Columbia University. (New Haven, Yale University Press; London, Oxford University Press, 1931. Pp. xiii + 316. 21*s.* 6*d.* net.)

THIS volume in the "Economic and Social History of the World War," promoted by the Carnegie Endowment for International Peace, is a study of war costs and, therefore, as the author says "is either a relatively simple matter of tabulation and fiscal allocation, or else it is an economic problem of insoluble difficulty, one which no volume can master and no series of volumes exhaust." Fiscal payments, accordingly, are "regarded as of little significance in themselves, their chief importance being as evidence of the outpouring of goods, the diversions of productive power from peace to war uses, and the sacrifices of the people, all of which constitute the more important realities behind the sums of money which serve to call them forth." Treating his subject primarily in a historical manner, Professor Clark skilfully avoids both the sterile and the impossible, and succeeds in conveying an adequate representation of the magnitude of a national effort and of its immediate and continuing cost.

In the Introduction several questions are raised, of which the most important is, "Has our post-war economy been built upon a basis which will have to be revised downward before we can resume development on a sound and normal basis? The overwhelming probability seems to be that this is the case." The first three chapters sketch the position of the United States before the War, during the period of neutrality, and during the war-period. In 1913–1914 the country showed abundant prosperity and a rising trend of production and income which would probably have risen to a greater height even if there had been no war. The outbreak of war immediately deepened the existing minor depression and produced a great disturbance in the financial world, but these first results were followed by an enormous increase of exports, paid for in gold, in the repatriation of American securities, and in loans from private American sources. Those years were highly profitable. "We were able to lend Europe our products (in effect), to restore our flow of home investments to a satisfactory normal level (or possibly more) and in any case to a level far above that of 1914, and to have more left for consumption than ever before, even on a per capita basis." "Including the armed forces, the War absorbed probably over 20 million person-years, or more than half of one year's normal gainfully employed man-

power for the country as a whole." There was much waste and delay, due to lack of preparedness, but business profits were high and a great impetus was given to standardisation. "It appears," says Professor Clark in an earlier chapter, "that an appreciable part of the cost of the War to the country as a whole was borne out of increased production and real income during the war period. Including the profitable period of our neutrality, this compensation might amount to more than one-third of the immediate war costs. Omitting the profits of neutrality, not more than one-fourth of the immediate war costs would be offset." The "aftermath of war" is the theme of the fourth chapter. First, the boom that followed on the world's need for replenishment of supplies absorbed the majority of the ex-service men, but the abnormal profits that were secured and the steeple-high prices that resulted led to over-investment and over-speculation which ended in a crash with 5,000,000 workers unemployed. Prices and costs were brought down "to a level which proved to be fairly stable up to 1929; and ushered in the period of post-war prosperity. This, despite depression in agriculture, coal-mining, shipbuilding, and other industries, and a considerable amount of continued unemployment, has been the greatest prosperity any country has ever known." The causes are "to a considerable degree conjectural," but include the new doctrine of high wages (strengthened by restriction of immigration and prohibition) and instalment selling. One war legacy that developed during this period is the rise of the United States as a creditor nation, with the ultimate inevitable result of an alteration in fiscal policy.

The bulk of the volume is occupied with discussions of particular problems, from which it is difficult to quote without incurring grave risk of misrepresenting both the facts and the author's conclusions. The headings of the chapters will indicate the scope of the treatment. They are: "The Nature of War Costs" (two chapters); "The Evidence of Fiscal Outlays"; "State, Local, and Private Expenses"; "How the Burden was Borne" ("it is an undoubted fact that this country bore the burden of the War without any marked or serious privations for the people as a whole"); "The Displacement of Man-Power"; "Shifts in Man-Power *vs.* Shifts in Income"; "Effects of the War on the National Dividend"; "The Toll of Death and Disability" (two chapters); "The War and Agriculture"; "The War and the Railroads"; "Shipping and Shipbuilding"; "The Northern Migration of Negroes"; "Munitions and Allied Industries"; "Other Industries"; "A Final Summary." In addition, two

appendices give a "Treasury Estimate of War Expenditure" and "Calculations of Economic Loss through Death and Disability." The chapter on the National Dividend is peculiarly interesting and inconclusive. "The figures afford no evidence that the national dividend in the period of active hostilities was either raised or lowered as a result of the War, and no sure evidence that our post-war prosperity was either greater or less than it would otherwise have been. They do afford convincing evidence that the national dividend in 1921–1922 was far below normal, and that this depression was not offset to any material extent by supernormal productivity in the years just preceding. And this depression was a direct sequel and result of war conditions." Regarding the subsequent prosperity, "probabilities seem to point to the conclusion that the War did play some part in setting up the conditions which carried our national dividend to heights it might not otherwise have reached in the same time, and that it thus made partial amends for its depressing effect on our total national income from 1917 to 1922. On the other hand, these conjectural gains seem destined to be more than neutralised by the results of the present depression, which also has claims to being in large part a war sequel." "It is only fair," the author adds, "to charge as part of the post-war deflation" the fall in prices which is the special feature of the present depression, and "it is possible that from now on we shall begin to bear for the first time one of the serious after-effects of the War from which we have hitherto been protected: namely, the diminished buying power of our customers in other countries How long this remains a serious burden depends on the speed and completeness of the economic recovery these other nations make. To facilitate this recovery, even at some present sacrifice, is one of the wisest things this country could do, in its own selfish interest. To cripple it or allow it to be crippled through failure to co-operate, would be the most calamitous of policies for the United States." H. W. MACROSTY

The Iron and Steel Industry in the United States. By E. D. McCALLUM, M.A. (London, P. S. King & Son, Ltd., 1931. Pp. 333. 12*s*. 6*d*.)

THE author, who is now Lecturer in Economics at Armstrong College in the University of Durham, states that he collected most of the material for this book during his tenure of a Rockefeller Fellowship in the Social Sciences in 1927–1928 in the United States. Much of the ground covered is familiar, as the titles of the chapters show—"The Processes of Production," "The Structure

of the Industry," "Industrial Combinations," "The Marketing of Iron and Steel," "Labour," "The Relations of Employers and Employed," "Rationalisation." Nevertheless it is always useful to have a fresh review, especially of an industry which, as the author says, has come to be regarded as "the best index of general business conditions in the United States," and up-to-date-ness, which is found in this book, is essential to the usefulness of essays in descriptive economics. The author is to be commended for the use he has made of the data contained in the Census of Manufactures reports, in the reports of the Federal Trade Commission, in those of the Secretary of Commerce, and in other official documents.

The salient fact about the enormous development of the industry in the United States is that the industry works essentially for a free-trade market of dimensions unknown elsewhere and that only about 5 per cent. of the output is exported. Chapter VI, which deals with marketing, will probably contain most novelty to most readers. Railways, building and constructional work, and the automobile industry accounted in nearly equal proportions for 51·5 per cent. of the consumption of steel in 1929. but railways have been losing and automobiles gaining importance as consumers; oil, gas, water, and mining came next with 10·5 per cent. In 1925 the consumption of steel per head of the population was $2\frac{1}{3}$ times as great in the United States as in the United Kingdom. About 85 per cent. of the steel output is sold direct by the steel companies to the consumers, and while the United States Steel Corporation relies on decentralisation of sales, the Bethlehem Steel Corporation centralises its business. Both methods have proved efficient, and warehouses are maintained in different parts of the country for ease of immediate delivery. "To the sales organisation there is frequently added a market research department. It is the function of this department to record and study changes in general economic conditions, to look out for market possibilities and to keep the sales department fully informed of its findings with the object of furthering the sales of the company's products." The jobbers or merchants are mainly engaged in "supplying the needs of the small consumer immediately on demand." They finance the small buyers and spread a good deal of the risk of production; the steel companies find it more advantageous to leave small orders to them. Import trade is handled by private merchants, and the increase in receipts of pig iron from India in 1924 and 1925 alarmed Eastern manufacturers so much as to enable them to obtain an increase in the duty from

U 2

seventy-five cents to a dollar and a quarter a ton. "The growth of the export trade," says Mr. McCallum, "is to be attributed largely to three factors, namely: (1) greater productive efficiency, (2) improvements in export organisation, and (3) the deliberate adoption, mainly by the United States Corporation, of a policy of export dumping. . . . With regard to the third, there is no doubt that the Steel Corporation has systematically dumped its products in foreign markets. . . . Much of its business has been secured by systematic dumping made possible by the partially monopolist position which the Steel Corporation maintains in the domestic market." Practically every steel-making company is included in the Steel Export Association of America, formed in 1928 in order, inter alia, to avoid extreme price-cutting in foreign markets and to define clearly areas of influence regarded as belonging primarily to the producers of one nation as against those of another.

Mr. McCallum is sceptical about the results of combination in the iron and steel industry of the United States. He thinks that their huge size may, "through lack of opportunity for training in the function of management, hinder the development of a high order of business ability." He suspects insufficient care in regulating capital expenditure and thinks that the elaborate machinery of control imposes a heavy financial burden. The expected economies of combination have not been realised, and evidence is available that in the case of the large concerns, "to judge from the return which they secure on their investment, they have proved less successful than smaller ones," a view which the movement of stock prices shows to be held on the stock exchanges. Again, "by far the greater part of the new construction work in the industry has been made by the smaller companies," and during the post-war period the four greatest steel-making concerns contributed only 1,350,000 tons towards the total increased capacity of 5,000,000 tons.

"Paternalism" and "autocracy" afflict the relations of capital towards labour, but interest will be found in the documents in the appendices dealing with the "company union" of the Bethlehem Company and the employee stock-owning plan of the Steel Corporation.

One final quotation of general bearing, relating to the utility of statistics, may be permitted: "It is no exaggeration to say that in the iron and steel industry the time has already come when a business man is able, in the words of the Secretary of Commerce, 'to determine the exact position of his industry in

relation to production, stocks, orders, sales, conditions of sources of supplies, the consuming market, credit, business activity, and broad economic currents—both at home and abroad—which may influence the conduct of his particular occupation.' " Of how many British industries can the same be said, and how long will business men be content to stumble along in unco-ordinated competition, ignorant of the relation of their particular operations to the condition of their industry as a whole?

H. W. MACROSTY

Economic Development in the Nineteenth Century. France, Germany, Russia and the United States. By the late L. C. A. KNOWLES. (London: Routledge. 1932. 12*s*. 6*d*. net.)

THIS is more definitely a text-book than Mrs. Knowles's volume on *The Industrial and Commercial Revolutions in Great Britain*, to which, however, it stands in a close relation. It gives a part of the continental background of that work, and the lectures on which it was based were no doubt meant to be taken in conjunction with those on the British development. The point of view is already familiar from the earlier book: the five parts of this volume after the Introduction deal with "The Agrarian Revolution," "The Industrial Revolution," "The Revolution wrought by Mechanical Transport," "National Commercial Policies," "Growth of State Action." Under each of these headings except the last, which is treated very briefly, the four great Powers are taken separately and in succession. There is little comparison or synthesis; what is given is a summary account of the leading facts and events. The scale is, of course, small: the whole book is shorter than Professor Clapham's volume on France and Germany, though it deals with four Powers instead of two, and begins before, not after, the French Revolution.

The consequent need for brevity no doubt explains the almost complete exclusion of the other continental European countries, even those, like Holland and Belgium, of which the economic history is really inseparable from that of their greater neighbours. Their omission is, however, partly to be accounted for by the distinctly political point of view from which the greater part of the book is written. "Great Powers" may indeed be such economically as well as politically, but only a writer who approached the economic through the political would have given more than one sixth of the book to tariff policies while saying scarcely anything about prices, the precious metals, international lending, the forms of industrial and commercial organisation, or the changes in

consumption. In such an immense subject-matter bold simplification is indeed necessary, and, as in her other books, Mrs. Knowles's happiest strokes are the illuminating phrases in which she throws up sharply points which are usually obscured by their contexts. Some of these provocative suggestions deserve quotation. "Up to the beginning of the nineteenth century, labour was difficult to obtain in every great European country" (p. 40). "The German women . . . are the best housekeepers in the world" (p. 173). "Knowing something of the seventeenth-century administration in England, I should say that that of Russia [before 1914] was no better and no worse than that of England two hundred years ago" (p. 346). The influence of milk-supply on infant mortality (p. 68), the need for further exploration of the economic influences on Napoleon's policy (p. 124) are examples of incidental points in the book which may be called genuinely original; and it is interesting that in emphasising the economic causes of the whole political development of the Revolutionary and Napoleonic era, Mrs. Knowles made a considerable advance from the political starting-point to which we have referred. This may be set against what appears to be an unduly favourable account of the Russian reforms of 1911-1914 and a tendency to ascribe too much influence to all grandiose programmes of State action, such as those of Colbert, Napoleon, Count Witte. The book is not overburdened with statistical information: and that which is given is always apt and is taken from good sources.

Mr. C. M. Knowles and Dr. Allan McPhee have done their editorial work well. A few repetitions occur, and the brevity of the last section and of the notice of German colonisation is somewhat out of proportion to the rest of the book, but there are not many obscurities or actual mistakes. Of the latter it may be useful to point out one or two. On p. 37 is the erroneous statement, "Up to the nineteenth century artificial pastures did not exist in any of the great continental countries"; but on p. 57 the amount of artificial pasture in France in 1789 is given as a million *hectares*. The accounts of the causes of wars are over-simplified, especially that on p. 195 of the Anglo-American war of 1812. On p. 196, l. 7 from below, "1823" seems to be a misprint for "1833." There are some confusions about the status and names of the minor German states in pp. 257-263. On p. 311, l. 7, "conscience" should be "consciousness." It may seem rather paltry to mention these little points, especially when they occur in a posthumous book, but it is a book which will probably be widely used, and the author would have been the first to welcome

corrections, however small, which would increase its usefulness. Its publication rounds off her work: with her three volumes on British and imperial development it makes an impressive whole. What is more, it shows the thoroughness with which she followed out her plan of setting British history in its organic relation to that of the world.

G. N. CLARK

A Short History of Political Economy in England. By L. L. PRICE. Fourteenth edition, revised and enlarged. (Methuen & Co. Pp. 315. 6*s*.)

IT has not been the fashion in England to study the history of economic thought since Mr. Price published the first edition of his book a generation ago, and this may largely explain why he "has seen no compelling reason for changing substantially the accounts furnished therein of the chief English economists of the past." After this statement from the author there would be nothing in the fourteenth edition for the reviewer if it were not for the addition of a Part concerned with more recent authors. They are divided, in accordance with the main lines of the division of labour in economic science, into economic historians, statisticians, and economic theorists. But first Gonner and Smart are considered in an introduction, because they exemplify the co-operation between all workers which has taken place. The economic historians are Rogers, Cunningham, Ashley, Unwin and Mrs. Knowles; the statisticians, Giffen and Booth; and the theorists, Sidgwick, Nicholson, Edgeworth and Marshall.

In this new Part the judgments expressed are of the most general nature. For example, of the seven pages devoted to Sidgwick, the two on his economics scarcely give the student an idea of how he differed from Mill and Marshall. In the case of Edgeworth more space might be given to showing precisely how he "poised himself so evenly . . . that he generally descended from the fence only to take shelter behind the screen of someone else, or, it might often be, of more than one at the same time."

The compressed exposition, and the literary style, sometimes make the real meaning difficult. In fairness to English scholarship it must be said that few would choose Spann's (written Spahn in the text) *Types of Economic Theory* ("this learned and suggestive history") and Homan's *Contemporary Economic Thought* to represent the substitutes which have been suggested for Marshall's "organon," without making it much clearer than Mr. Price does that they are not to be taken as typical of economic thought in the German-speaking countries and America.

It would be an increased asset if Mr. Price would put his great knowledge of economics prior to his own generation at the disposal of his wide body of readers in greater detail. A quarter of a century has passed since the only other occasion when the book was revised; and while it will undoubtedly play a part commensurate with the width of its public in stimulating the study of the history of economics, its effect would have been greater if the history had been presented in greater detail edition by edition.

R. OPIE

Magdalen College,
Oxford.

Technischer Fortschritt und Arbeitslosigkeit. By E. LEDERER. (Tübingen: J. C. B. Mohr. 1931. Pp. 126.)

PROFESSOR LEDERER regards this as a tentative analysis of the consequences of technical progress, the theory of which has not yet been fully worked out, in spite of the fact that nothing in a dynamic system can be explained without it. He expresses dissatisfaction with the existing attempts, which he calls compensation theories, because they argue that labour set free by improvements is automatically resorbed. His own conclusions may be formulated as follows. (i) The tempo of technical progress relative to the formation of capital and increase of population determines how long unemployment will last. (ii) The tempo of improvement in a boom is one of the determinants of the severity of depression. (iii) Cartels and trusts tend to speed up technical improvement and make it "too rapid." It is this tendency of capitalism to organise itself that discloses the imperfection of the automatic resorption of labour and raises the vital problem of social restraint upon the tempo in order to realise the "beneficence of technical progress."

The analysis proceeds by dividing industry into groups, in one of which a technical improvement occurs. Definite magnitudes are assigned to such things as labour and capital employed, rate of profit, and rates of change. The particular numerical example so constructed is the starting-point of long chains of bold reasoning, which exemplify the grave defects of this method. There are some confusions and ambiguities due to the failure to make explicit at every step the assumptions necessary to the particularity of the example chosen.

First of all, an example is constructed for a static system or circular flow (*Kreislaufwirtschaft*). The effect of the improve-

ment is made to depend entirely upon the elasticity of demand for the product affected. The examination of the possible conditions of elasticity, however, yields no result for use in the "dynamic" system, nor does it in any way facilitate the consideration of the latter. There are two reasons for this: first, the assumptions are neither clear nor adequate; and secondly, every significant effect of the initial change is abstracted from, either because it would make the system dynamic or, as in the case of shifts in demand, because it is peremptorily asserted to be negligible.

In the dynamic analysis the danger of reasoning upon a particular example becomes more striking. The assumptions should be elucidated; for example, there is no indication how long the assumption is retained that the additional means of production necessary to expansion can be supplied by industries producing consumption goods (p. 84). Consequently, the conclusions do not always follow from the preceding reasoning. A case in point is the statement, important for the general conclusions referred to above, and one emphasised by Professor Lederer, that small disturbances may have great effects. But the assumed improvement, which dispenses with 50 per cent. of the workers in the firms affected, is not a small disturbance. It is directly responsible for approximately 55,000 of the 67,000 unemployed which finally emerge in Professor Lederer's example. In contrast to this, it is taken for granted that small changes in prices will not have large effects.

Magdalen College, R. OPIE
Oxford.

L. T. Hobhouse, his Life and Work.—With selected Essays and Articles. By J. A. HOBSON and MORRIS GINSBERG. (London: Allen and Unwin. 1931. Pp. 360. 12s. 6d.)

LEONARD HOBHOUSE'S friends, as well as a large number of workers in the subjects to which he devoted so much of his life and his remarkable powers, will welcome Mr. Hobson's little biography. They will also welcome Professor Ginsberg's appreciation of his contributions to psychology, anthropology, sociology, and philosophy proper.

Hobhouse was unusually versatile. He was not only a great teacher and a brilliant journalist: he was also a philosopher, a social worker, and a politician. He was a pioneer in the science of sociology and in some branches of psychology. The width of his range of interests may be shown by the fact that when at

Oxford, in connection with his philosophical studies, he undertook a strenuous course of physiology and biochemistry, while in later life he even plunged into mathematics with a view to a better understanding of Einstein.

Hobhouse was of course interested in economics, and especially where it touched the subjects with which he was mainly occupied, and he took an active part in the practical application of economic theory, as witness his work spread over many years in connection with Trade Boards. But he was never a professional economist. In the list of his principal works, printed at the end of the volume, only two articles are mentioned which could be described as definitely on economic subjects. For economists as such, therefore, the volume does not contain much of special importance. As human beings, however—and I suppose some of us economists are human!—this account of a fine personality and an indefatigable student of the social sciences should have its appeal, for, as the late C. P. Scott says of Hobhouse in a graceful little introduction, his "dominant characteristic was ever his humanity," "his deepest instinctive belief and hope was in human progress," and "no one surely ever better earned the title of the friend of man."

The selected articles and essays, which form the latter part of the book, are almost all either leading articles or back-page articles contributed by Hobhouse to *The Manchester Guardian* during the war years. They range over a variety of subjects, from *Statesmanship in War* to *Jane Austen*, and from *The Future League of Peace* to *The Artistic Fallacy*. They are beautifully written; they are unusually good specimens of this class of journalism, and interesting as showing Hobhouse's powers in this direction. The first of the essays, entitled *The Problem*, should be of some interest to readers of the JOURNAL. It was written at the end of his life as an introductory chapter to a book planned by Hobhouse and a group of friends "on what may be termed the new social-reformist policy," though the project was abandoned after his death. The essay contains a good discussion of such subjects as the limits of State interference, the share of labour in industry, arbitration, the rights of property, and inheritance. This is apparently the only one of the essays and articles which has not hitherto been published.

There are one or two slips in the biography. For instance, the year of Hobhouse's death as stated in the Preface does not tally with that given in the text of the life. And according to the dates given on p. 15, Hobhouse's father must have either

died in 1899 and not in 1895, or he must have been given a living four years before he is said to have been ordained. But these are small blemishes in an attractive book which should help to keep alive the memory of the life and work of a man whom Mr. Hobson I think rightly describes as " one of the less known of the great men of our time." SANDERSON

The Industrial Revolution and the Economic World of To-day. By L. W. WHITE and E. W. SHANAHAN. (Longmans. Pp. 378. 6s.)

THIS book is a study of the industrial changes and their effects in Great Britain and of contemporary economic structure. It is intended primarily as a text-book for the teaching of economics in schools, and as this is in itself a debatable and important question, the method here suggested by the authors, who have experience of such teaching, is of considerable educational interest. The book is divided into two parts : in Part I Mr. White gives a good account of economic development from the seventeenth century to the present day, and in Part II Dr. Shanahan discusses very competently such existing economic problems as trade fluctuations, international trade, unemployment, public finance, etc.

On the whole, from the point of view of teaching method the connection between Part I and Part II is slight. A preliminary knowledge of economic history is a very different thing from an historical approach to economics. The desire is evidently to avoid theory, but unfortunately it is only in the light of principles that any real historical connection can be seen. Part II, which deals with economics as distinct from economic history, is descriptive and informative and gives a good account of what the economic specialists are saying on the different questions discussed, but it gives the schoolboy no instrument of analysis by which he could examine any economic problem or form any judgment of his own. The reproduction of the considerations here set forth by a schoolboy with no training in economic principles would have a naïve and somewhat pathetic aspect to the sympathetic observer. The unravelling of the so-called " capitalist slogans " which follows on these difficult chapters (Chaps. X–XVI) is in itself surely a confession of the nature of the teaching that has been conveyed. So long as the aim of this type of teaching in schools is merely general knowledge, it may have its uses, but its nature and limitations should be very clear both to the teacher and the taught, but especially to the teacher. If it were clear, would it be suggested that " Perhaps the best book for further reading is

Cannan's *Review of Economic Theory* " (p. 365)? A destructive piece of criticism of this nature is hardly useful to anyone with no knowledge even of the simplest theories of rent, wages, interest or profits. Marshall's *Economics of Industry* or Clay's *Economics for the General Reader* (not the "Everyday" Reader as stated), though they follow rather oddly on the first suggestion, are more indicative of the stage that has been reached by a student of the book under review. M. T. RANKIN

England in Transition. By M. DOROTHY GEORGE. (George Routledge & Sons, Ltd. 1931. 7*s.* 6*d.*)

THIS book is based on the series of broadcast talks given by Dr. George in 1930, but for the purposes of this book the talks have been very much expanded and rewritten. The result is a very interesting and lively little book and a very valuable one for teachers and students.

There is probably no aspect of history more difficult to portray, as history, than the economic or industrial aspect, and yet it may safely be said there is no aspect of history so frequently taught by those who are not historians. Most schemes for "adult education" include a course on Industrial History which covers in most cases mainly the period of the "Industrial Revolution." It is a disturbing thought to consider how much implicit materialistic interpretation of history goes on in this connection, saved only, if at all, from a blighting influence by its own drabness and that saving grace of inattention on the part of the young. To give information about the great inventions, the rise of trade unions, the growth of factory legislation and the breakdown of the Poor Law is no doubt useful in many ways, but seldom is it history: it has no real roots in the past and very little in the way of life for its own period or developing force. It lacks reality because it lacks unity. Dr. George's book is a corrective to all this. She deals mainly with the period just before 1760, and in order "to counteract our bad habit of reading history backwards" (p. 31), she deals with it entirely from contemporary sources. The breadth and accuracy of treatment which Dr. George attains in this way, and in so small a compass, are remarkable. Not only are unity and humanity given to the period, but they are breathed into the succeeding period of considerable if not "revolutionary" change. The completeness of the picture is increased by the skilful use of illustrations from contemporary prints. In an appendix are given Gregory King's estimate of "population, poverty and wealth" (1688), and Colquhoun's estimate (1803). M. T. RANKIN

The Sociology of City Life. By NILES CARPENTER. (New York : Longmans, Green & Co. 1931. Pp. xix + 502. 16*s.*)

MR. CARPENTER will not take the risk of leaving anything unsaid, and some of it he repeats many times, on the principle perhaps that " what I tell you three times is true." Nevertheless there is much interesting and valuable matter in this book.

After a detailed survey of the origin of city life beginning with the neolithic period, of the location of the city and the composition of urban populations, the author proceeds to a comparison of the city and country dweller as regards birthrate and deathrate, habits of life, work and recreation. Next he treats of the relative incidence of poverty, crime and insanity, and wherever the city compares unfavourably with the country, he finds an explanation of this in the immigration both of foreigners and of country-dwellers, which is a function of urban growth. The new conditions produce a *shock-effect* : with his old anchorage the migrant loses his old standards, and the efforts required for successful adaptation to his new surroundings are often greater than he can achieve. The result is frequently a breakdown of health, morals and even sanity. So culture-shock is invoked over and over again in this volume to account for religious indifferentism, poverty, crime and mental disease, and statistics are quoted to show that migrants not only of the first, but even of the second generation contribute disproportionately to the main evils of city life. The Jews would appear to be an exception to this rule, since they do not share the weaknesses of other immigrants. But they have by long habit become " indurated " to city life, and so do not suffer like other newcomers from difficulties of adjustment. This is a somewhat light-hearted conclusion which leaves out of account all national qualities and characteristics.

Turning to the economy of city life, Mr. Carpenter describes in great detail the efforts required to bring supplies into the city and take waste products out of it. This would appear to be the city's Achilles heel, for once the optimum size has been reached, essential services will become progressively more difficult and more expensive. At this stage or earlier the pressure of public opinion will have placed these services under government control; and the Government machine, unwieldy, inflexible, probably inefficient and certainly corrupt, will begin to encroach on private enterprise, lay increasingly heavy burdens of taxation on the community and dry up the springs of energy and the sources of

production. The government of cities, the author admits, has been the one conspicuous failure of the United States, as, generally speaking, city governments appear to consist largely of venal and second-rate men. Other nations are not mentioned in this connection, but it is clear that these generalisations are meant to extend beyond the limits of the United States.

The disquieting feature of the situation is the apparent lack of connection between "cultural" and economic processes. A growing number of persons become psychologically and socially conditioned to urban life: any other existence is to them inconceivable. So cities expand, and are liable to continue expanding, long after considerations of economic expediency would call a halt.

Having brought us into this *impasse*, Mr. Carpenter concludes his work with a comparison between the Roman Empire and our modern civilisation, and here at least provides us with a gleam of hope. The fall of Rome exemplifies the very principles set out above. But the whole period of Roman expansion was relatively sterile of scientific and technological advance, while in the modern world scientific discovery and invention have more than kept pace with the increase of population and the expansion of cities. The only question is how long they will continue to do so. Mr. Carpenter's problem would seem to be a further refinement of the problem which has troubled Malthusians for over a century—that of accommodating an indefinitely increasing population within a non-expansible space. And on the future of this he obviously cannot be expected to commit himself.

H. REYNARD

Das Ende des Kapitalismus. By FERDINAND FRIED. (Jena: Eugen Diederichs Verlag. 1931. Pp. 265.)

ONE of the results of the present economic crisis is that everywhere there is a close examination of the capitalist organisation of society. Is capitalism in danger of imminent collapse? Will it outlast the economic upheavals to which it has been subjected? Questions of this kind are being asked both in the market-place and the study; Fried's book is a survey of the field in clear language, attractively presented (with arresting captions), but limited almost entirely to conditions in Germany. Fried maintains that the Industrial Revolution and its technical inventions have at last come to an end; that the tendency in Industrial States for the population to increase has been succeeded by another making for a gradual decline of population; that the alarming extent of unemployment is significant of the prevailing crisis;

that free competition has been checked by the growth of trusts, cartels and combines; that freedom of trade is no longer a reality; that, as a consequence, modern economic activities do not produce outstanding leadership or outstanding ideas, but are regulated by administrators and officials; that the State interferes more and more in economic enterprise, creating a sort of new Mercantilism. In a word, where before tendencies in economic life were dynamic, to-day they are beginning to be static, and the end of Capitalism is in sight.

These theses are elaborated in the book, which contains nothing that is specially new or deep. It is an essay in Descriptive Economics, almost entirely reviewing German conditions. For these the book will be found very useful, especially for the light it throws on such questions as the number of millionaires in Germany, how they amassed their wealth, who are the leading industrialists, bankers, financiers and landowners. Fried effectively contrasts the old generation of captains of industry with the new, and his picture will be found true to fact, not in Germany only. But he also surveys the other social groups; he considers the effect of the failure of Capitalism on the middle classes and the proletariat. Both the worker and the farmer have been forced to lower their standard of living, and all because of what? Because of the world's indebtedness. Look where you will—to South America, to Australia, to the greater part of Europe—and you will find general bankruptcy. The burden of indebtedness is weighing down the world in general and Germany in particular. Reparation payments are a curse to those who receive no less than to those who make them. By reason of these payments, Germany has been forced into the position of a debtor country; by virtue of her geographical and cultural situation, she is destined to lead the debtor countries in the international economic rearrangements which are bound to be made sooner or later as a result of the collapse of Capitalism.

Those who require a rapid survey of present-day conditions in Germany—not in detail, but in general outline—will read Fried's book with profit. The author appears to be a clever journalist employing an easy style.

M. EPSTEIN

Gesammelte Abhandlungen. By FRIEDRICH FREIHERR VON WIESER. (Tübingen: Verlag von J. C. B. Mohr. 1929. Pp. xxxiv + 404.)

WHEN on July 22, 1926, Wieser died, his position as one of the leading authorities of the Austrian School of Economists was

firmly established. Nay, more: he had won a world-wide reputation as a prominent teacher of Economic Theory. Students in this country will associate his name with the conception of "marginal utility," and many will have read his more important works in an English translation—*e.g. Natural Value*, published in London in 1893, or *Social Economics*, published in New York in 1927. Wieser's literary output was fairly extensive; Prof. Hayek has made a selection of some of his representative papers which he has collected in this volume as a memorial to a teacher whose fame extended far beyond Vienna.

Fifteen papers are in the volume: one, on "The Austrian School and the Theory of Value," appeared in this JOURNAL in 1891; in the volume it has been translated into German. Of the remaining fourteen it will suffice briefly to indicate their respective themes. The method and content of Economic Theory are studied in two papers—one a short consideration of terms, and the other a lengthy review of Prof. Schumpeter's book, which, though written in 1911, may still be read with profit in 1932. The theory of value is discussed in two papers: from the *Handwörterbuch der Staatswissenschaften*, of which Wieser was one of the Editors, two of his articles are reprinted, one on the conception of a "good," and the other on "marginal value." There are several papers on gold and currency problems, and a lengthy study on the relation between large-scale enterprise and co-operative production. Of the two lectures in the volume the more important is Wieser's Rectoral Address at Prague, on Social Forces, in which he develops a somewhat conservative political creed. An appendix contains an early essay ("On the Relation between Cost and Value") dating back to the year 1876, which has never before been published.

It would be needless to attempt to evaluate the papers in this volume. Suffice it to say that the selection is representative, and that it is convenient to have the papers in one volume. The book will take its place worthily among Collected Economic Essays, from those of Cliffe Leslie, which some of us read with profit and pleasure a quarter of a century ago and more, to those of Keynes and others of our own generation. M. EPSTEIN

Genetic Principles in Medicine and Social Science. By LANCELOT HOGBEN. (Williams and Norgate. 1931. Pp. 225. 15*s*.)

THE extent to which the characteristics and behaviour of men rest upon genetic foundations is a matter of interest to all. To students of the social sciences it is a basic problem which

they cannot escape. Not only the explanation of events in past times, but also any long-range proposals for betterment, must be profoundly affected by the view taken as to the part played by the genetic basis of human nature. It was inevitable that men should have speculated concerning a problem of such great and general interest long before there were any means of making a scientific attack upon it. Thus in any case scientific inquiry would have begun in an atmosphere of preconception. But the study of this vast problem has had a peculiarly unhappy history. The present state of affairs is largely due to the influence of Sir Francis Galton, a man of great charm, ingenious mind and a multiplicity of talents. But the net result of his influence was to implant prejudice rather than to lay the foundations of scientific study. Ostensibly he was a worker in this field who based his opinions on the results of scientific investigation. Without in any way belittling his many valuable contributions, it is true, however, to say first that he was in far too great haste, and secondly that he did not maintain a clear distinction between the science of human genetics and the art of applying that knowledge. As an example of the first we may note that as early as 1883 he wrote that "we greatly want a brief word to express the science of improving stock." But there was then no need of such a word; another twenty years were to pass before there could be such a science, because it was not until well into the present century that the fundamentals of genetics began to be studied. As an example of the second we may recall his well-known definition of eugenics as "the study of agencies under social control that may improve or impair the racial qualities of future generations." In form it is the definition of a science, but he has imported into it concepts of value with which a pure science has nothing to do.

The first holder of the new chair of Social Biology at the London School of Economics is thus in a peculiar position. He is faced by the fact that his field is encumbered by much pseudoscience; moreover, conflicting opinions are held with a conviction, sometimes amounting to passion, with regard to matters that have as yet hardly begun to be investigated. He has set about his difficult task in an admirable fashion. This book contains studies, involving much original analysis, of several important aspects of the problem. Among others there are chapters on twin resemblance, on single gene substitutions in human pathology, on serological data from the point of view of gene localisation and on the concept of race. For an attack

on these problems Professor Hogben possesses the indispensable equipment of a thorough knowledge of genetics and of a mastery of statistical method. No attempt is made to summarise the numerous pieces of fragmentary information that are to hand; that has been done often enough in recent years. The aim is to begin to lay firmly a few foundation stones, and in that object the author has been thoroughly successful. It is not an exaggeration to say that this book is the most important contribution that has been made for some years in this field.

The book is not easy reading for those without some knowledge of genetics and of statistical method. In consequence the casual or hasty reader may miss that which is of lasting value—the closely reasoned exploration of particular problems. His attention is likely to be caught by another aspect of the book which is hard to define. It may be put this way. Professor Hogben is not only in revolt against existing pseudo-science, but also against the general conclusions which are based upon it. He is not content, however, to intimate that any general conclusions must be premature. He is emotionally repelled by the doctrine of the importance of inheritance and especially by the superior and condescending outlook to which it sometimes gives rise. It is evident that he is attracted by the opposing point of view; and, while he is far too conscientious a man of science ever to suggest that there is scientific evidence, when it is absent, for that which he would like ultimately to find to be true, he does somehow convey the idea that further knowledge will not tend to support the thesis that inherited differences are of great importance. The careless reader may easily conclude that Professor Hogben has demonstrated this. He has not done so, and it is a pity that he has laid himself open to this misconception.

A. M. CARR-SAUNDERS

The Social Aspects of Rationalisation. (International Labour Office. Pp. 381. 8s.)

THIS important review of all the conditions which come within the sphere of rationalisation is the result of the resolutions passed on the subject at the Geneva Conference of 1927. It is an authoritative summary of facts brought together from countries where the new industrial outlook has taken hold, and these facts are collated in all their bearings on output, wages, hours of work, employment, industrial hygiene, and industrial relations. The output figures are so remarkable as to suggest a new type of industrial revolution, whose early momentum can hardly be long

maintained. The social facts accompanying this change are impartially considered, and they are favourable in the existing range of the test, with some doubt in respect of employment; but the need is indicated for psychological and physiological research from the point of view of various industries. The general conclusions of the review are, that the question of hours of work is a root question, which recurs in relation to most of the others; that economic and social science have an increasing part to play in the analysis of progress upon welfare; that the collaboration of the employees is a condition of complete success: that the human factor must be the acid test in the end. "The task of the future may perhaps be to rationalise rationalisation."

Mathematical Psychics. By F. Y. EDGEWORTH. (London School of Economics; Reprints of Scarce Tracts. No. 10: 5*s*.)

IT may surprise some economists to learn that this essay, one of Edgeworth's earliest works, was published more than fifty years ago. The original edition was small, copies have become extremely scarce and for many years the need for a new edition has been an urgent one. We have every reason, therefore, to be grateful to the London School of Economics for the inclusion of *Mathematical Psychics* in their series of reprints of scarce economic tracts. The reprint is a photographic copy of the original edition and, except for the faithful reproduction of the numerous minor misprints contained in the original, it is excellently produced in every way.

Viewed in the light of recent developments in the field of mathematical economic theory, Edgeworth's essay on "the application of mathematics to the moral sciences" is of interest to us to-day mainly because of the section devoted to the "economical calculus," which gives an outline of a theory of value and market equilibrium under static conditions. Edgeworth's problem here is to find how far contract between individuals is indeterminate under various conditions, *i.e.* without competition, with perfect competition and with more or less imperfect competition. His two main contributions to mathematical economic theory appear in the course of his solution of this problem. The first is his analysis of the familiar problem of barter or bilateral monopoly (two individuals exchanging two goods), from which he proceeds to a discussion of imperfect competition. The analysis leads to the definition of a "contract-curve" and shows that the problem of bilateral monopoly is indeterminate. The solution has been

subjected to much criticism, but there is little doubt that it is valid within the defined limits of the problem.

The second contribution consists of the introduction of the idea of utility as a function of more than one variable and of the ideas of indifference curves, lines of indifference and preference, which naturally follow. Here *Mathematical Psychics* should be read in conjunction with Professor Irving Fisher's doctoral thesis, *Mathematical Investigations in the Theory of Value and Prices* (1892, reprinted 1925), which, though eleven years later in date, was written without knowledge of Edgeworth's work. The modern theory of value, the most complete expression of which is to be found in Pareto's analysis, owes much to the ideas of utility, marginal utility and indifference curves developed by Edgeworth and Irving Fisher. Without these ideas the theory would have remained at the point at which it was left by Jevons and Walras, based on the concept of utility as a fundamental and measurable quantity dependent only on the amount of a single good possessed by an individual. But with these ideas and using Walras' analysis as a general foundation, Pareto was able to construct his theories of the equilibrium of exchange and production in which subjective concepts of the measurability of utility are completely abstracted.

The fact that Edgeworth himself fails to progress far towards a comprehensive theory of market equilibrium, in the case of more than two individuals and goods, is due, I think, to the method of approach he adopts. His starting-point is a discussion of the problem of two individuals exchanging two goods, and his method is well adapted to this case. He avoids all reference to market prices (or ratios of exchange), considering, quite rightly, that a uniform price is inappropriate to the problem of barter or bilateral monopoly. As a result he is unable to use the method characteristic of the modern mathematical theory of value, the so-called "individualistic" method. This method is almost essential for any consideration of the general cases of competition and monopoly on a perfect market consisting of a large number of individuals producing and exchanging a large number of goods. The method depends entirely on the parametric function of the market prices. First, each individual is considered separately by assuming a *given set of market prices*, and a partial equilibrium is obtained based on the tastes or preferences of the individual. Secondly, the individuals are brought together on the market, the market restrictions are introduced and the individual partial equilibria are combined into one final equilibrium by the deter-

mination of a consistent set of constant parametric prices. The important point is that the links connecting the various individuals on the market are provided by the market prices and not by direct comparisons of the utilities of different individuals. In this way, the abstraction of the subjective concepts of utility is made comparatively simple, mathematical analysis is able to tackle the complicated processes of production and exchange and Pareto's theory of value emerges in its most refined form.

Of the other two sections of Edgeworth's essay, one is concerned with a general defence of the use of the mathematical technique in economics and shows that Edgeworth was largely influenced by the analogy between economics and mathematical physics. The remaining section, entitled the "utilitarian calculus," deals with the wider and vaguer subject of "welfare" and postulates "a common denominator of feeling" amongst individuals. Its influence on the development of mathematical economics has been negligible; it merely provides a text for those who condemn the mathematical method on the ground that it re-introduces the psychological and metaphysical concepts that economists are at such pains to discard from their subject.

R. G. D. ALLEN

London School of Economics.

Lectures on Political Economy. By MOUNTIFORT LONGFIELD, LL.D. (Dublin, 1834.) (Reprinted as No. 8 in series of Scarce Tracts in Economics and Political Science, London School of Economics and Political Science, 1931.) (Pp. xii + 267. 5s.)

IN 1832, Whately, after occupying the Drummond Chair of Political Economy at Oxford for a short time, was appointed to Dublin as Archbishop of that diocese in the Established Church. Out of the large income he enjoyed in this office he provided a salary of £100 per annum as an endowment for a professorship of Political Economy in Trinity College, Dublin; and he continued the payment until his death in 1865, when the College took over the duty and established the chair on a permanent basis. The tenure and conditions of the chair, originally, were similar to those laid down at Oxford. No person was to hold the position for more than five successive years. Nine lectures as a minimum had to be delivered during each academic year; and at least one of them had to be printed and presented to the members of the college governing body on pain of forfeit of the whole of the stipend for the session during which the sin of omission was committed. The

eleven remarkable lectures now reprinted were the first delivered under this scheme; and there is evidence that they formed a basis for subsequent lectures delivered by the same author and by his immediate successors in the new chair at Dublin. Their importance lies in the fact that they constitute one of the earliest contributions to marginalism in economic science. Thus, Longfield shares with Lloyd (Whately's successor at Oxford) the credit of having, simultaneously and independently, anticipated the Austrians and Jevons in some of the most important advances in economics in the nineteenth century. His place in the history of theory has been considered by Professor E. R. A. Seligman in an article in Vol. XIII of this JOURNAL, reprinted in *Essays in Economics*, pp. 111 *sqq*. Nothing need be added here to that comprehensive examination.

Professor Seligman argues that Longfield, like some other pioneers in economic theory, has been largely overlooked and neglected owing to the fact that his views were not those of the dominant school which taught a doctrine more in harmony with the aspirations and prejudices of the ruling class of the period and thus gained, readily, the label of soundness and orthodoxy. Undoubtedly this was so; but some of the fault also must be ascribed to Longfield himself and to the circumstances attending the position he filled. He was by training and by inclination a lawyer, as were most of the early occupants of the chair in Dublin. It could hardly be expected that a post of £100 per year, and a temporary one at that, would be regarded as a prize by a man of ambition. It is, therefore, not surprising that in 1834 he accepted the Regius Professorship of Feudal and English Law, a more important chair with less restrictive conditions attached, and shortly afterwards resigned the Professorship of Political Economy before completing the full quinquennium to which he was entitled. He became Commissioner of the Incumbered Estates Court in 1847, a position created by one of the first of the long series of Irish Land Acts, and, subsequently, Judge in the Landed Estates Court. The ability with which he filled these important positions and the prestige that attached to his judicial decisions no doubt gladdened the heart of Whately and encouraged the latter in his opinion that political economists of some sort or other were among those best fitted to govern the world.

Longfield's theories seem to have been finally thrust aside in Dublin by John Elliott Cairnes, who occupied the chair from 1856 to 1861. Cairnes was himself a graduate of Dublin and must have been familiar with Longfield's work. It is strange, therefore, that,

in his struggles and difficulties with the Wage Fund Theory, he never cast a glance backward at his eminent predecessor. It was not the first (neither was it the last) time that orthodoxy imported from across the channel scotched native truth in a very ill-used island.

J. G. Smith

University of Birmingham.

Grundzüge der Theorie des wirtschaftlichen Güterwertes. Von E. v. Böhm-Bawerk. (No. 11 in Series of Reprints of Scarce Tracts in Economic and Political Science, edited by the London School of Economics and Political Science, 1932.) (Pp. 150. 5*s.*)

Böhm-Bawerk's *Grundzüge*, which is the first non-English work to be included in the London School of Economics series of reprints, is perhaps the work which has been most effectual in establishing the reputation of the Austrian Marginal Utility School. Published as a series of articles in *Conrads Jahrbücher* in 1886, fifteen years after Carl Menger's first statement of the new theory and two years after Wieser had added the essential complement now generally known as the opportunity cost principle, it is probably the most elegant exposition of the views of the Austrian School. The author, then already well known from his *Capital and Interest*, published two years earlier, had felt the necessity to prepare the way for the sequel to this work, his famous *Positive Theory of Capital and Interest*, by an elaborate exposition of the theory of value on which it is based. Being mainly a re-statement of the views of Menger and Wieser, it succeeded not only in putting them in a more convincing and precise form, but also elaborated them in some directions and cleared up certain difficulties. Written in the lucid and brilliant style characteristic to all writings of Böhm-Bawerk, it forms an admirable introduction to the modern German literature on economic theory. But, though great parts of it had been incorporated in the introductory chapters of the *Positive Theory*, it had so far never been reprinted in its entirety, and particularly some of its most important discussions of points of detail have only been accessible in the old files of the *Jahrbücher*. On some points, of course, Böhm-Bawerk has revised his statements in the later and shorter expositions. But on quite a number of points this his first utterance on the theory of value is still of more than historic interest.

F. A. Hayek

NOTES AND MEMORANDA

USURY AND THE CANONISTS: *Continued*

I. Usury

The discussion of interest, usury and the canonist doctrine in the last two numbers of the Economic Journal impresses me as being the most important clash of ideas which has taken place for a long time in the economic field. I should like to stress a point which has missed emphasis in this discussion. This point reinforces the general theses of Mr. Keynes and Mr. Somerville, with whose views about interest being the "villain in the piece" I am in substantial agreement. It seems to me that to justify interest it is necessary not only to prove that saving and investment are for all economic purposes practically identical acts: and not only to show that the act of investment takes the form of the creation of an asset, other than the right of action acquired by the creditor against the debtor; but also to demonstrate that such asset subsequently yields utilities, the exchange value of which equals the full debt charges.

In defending any institution it is easy to confuse the issue by proving many points which are not relevant to the criticism. In this discussion it is no answer to a frontal attack on the institution of unconditional interest-bearing debt to contend that the saver of capital is worthy of the hire of his savings, or that such compensation is desirable, under private capitalism, for the encouragement of a necessary amount of saving. I should have liked to read a defence of the specific proposition that it is desirable for the State to recognise and attempt to enforce unconditional promises of interest payments, regardless of the use made of the borrowed money or of the ensuing course of events. This proposition is implicit in every credit instrument. When one undertakes the defence of credit as an institution, it would seem that one is bound to uphold this proposition. An institution of long standing cannot be defended on the basis of ideal assumptions about it which, in at least half the cases, do not correspond to the realities of daily experience.

In point of fact, we know that lenders, over the long run, do not receive more than a part of the exchange value of the utilities

resulting from the use made of their loaned capital. Only for a comparatively short time can lenders derive an income drawn from a reduction in the standard of living of the debtors. The repudiation of public debts, usually by currency devaluation, and the processes of default and bankruptcy, especially during the recurrent depressions of the credit cycle, ruthlessly enforce the rule that the lender may not receive the rent of capital used in ways which may be loosely and briefly termed consumptive or unproductive. Unfortunately, our economists and lawyers are under the spell of an era in which British consols rarely fell as low as 90. British wars for over a century were always productive, while American railways were often unproductive—at least for investors. It is not strange, therefore, that British and American thinking about credit should be legalistic and mystical. But now that the pound sterling is an historical expression, and the I.O.U. of the British nation not unlike that of an ordinary embarrassed debtor, has not the time come for economists in Britain and America to start discussing interest and debt with more realism and less reverence?

Such a discussion of interest ought not to be confused with laboured proofs of elementary propositions, most of which any capitalistic economist would accept without serious question. The discussion should at once go to the heart of the interest problem: Is it desirable, either from the point of view of the smooth functioning of the mechanics of private capitalism or from the point of view of any tenable scheme of social ethics, to recognise and attempt to enforce a creditor's unconditional right of action against a debtor for interest and principal payments on loaned funds, regardless of the use made of the money and of subsequent events? We know that attempts to enforce these rights are often unsuccessful. The question is whether attempts should be made to enforce such rights, or whether the lender should always assume liability for mistakes and misfortunes in the use of his capital.

This simple question, at the heart of the canonist doctrine on usury, has great relevancy to such present-day realities as war debts and reparations. In my opinion these problems will never be happily disposed of—they may be unhappily liquidated—until our social scientists abjure a large part of our traditional credit doctrines and re-educate the people to new and more realistic investment concepts. War debts are already cancelled in reality, as the last payments have probably been made. It may be left for a future war to work out the formal cancellation of these

absurd relics of the last great war. It will not be a new thing, however, for an international monetary claim to remain pending for a generation or longer. It is singularly unfortunate that those who, on both sides of the Atlantic, preach amiable cancellation of war debts should, at the same time, continue to shut their eyes to the simplest of facts and preach Calvinistic ideas about credit and interest. These good people fail to appreciate that the common man in the United States, unversed in legal and economic lore as he may be, must perceive the obvious absurdities of an attempt to reconcile classical credit doctrines with a proposal to forgive rich debtors like England and France their debts to the American Government.

It is idle, if not positively naïve, for eminent British and American economists to expatiate on the advantages of war-debt cancellation. It may be true, as they assert, that American foreign trade would profit from the cancellation of our claims against our debtors. The debtors could buy more from us or from other nations if they did not have to pay their debts to us. But the same argument applies equally well to all private debts within the United States. The debtors are a larger family than the creditors; they spend their incomes more rapidly and more completely than the creditors either consume or invest their incomes. Any large-scale cancellation of debts in this country might, therefore, tend to increase the consumption of goods, and hence to stimulate production and capital investment. It would probably generate a great trade revival to have our entire private and public debt, exclusive of bank deposits and short-term commercial loans, cancelled by some sort of national capital levy. A slow cancellation of debts, effected solely by the processes of payment, defaults and bankruptcies, will not, apparently, stimulate trade so long as these processes are in course. We had in 1931 some ten billion dollars of such debt cancellation in the United States.

But the argument that debt cancellation will enable the debtor to spend more is not one likely to commend itself to the creditor who must find himself able to spend less as a result of such cancellation. There is an answer to the creditors in America who might object to a Government levy on capital to reduce in any given proportion the total debt of the people of the United States. There is likewise an answer to the American taxpayer who objects to paying in taxes the amount which the British Government fails to pay on its I.O.U. to the American Government. On careful analysis, however, it will be found that the

answers to these two classes of objections are substantially the same, and that they strike equally at the institution of interest-bearing debt.

The answer to the American taxpayer who objects to war-debt cancellation is that our collection of international debt payments of great magnitude sets in movement other processes like falling prices and waning demand for consumer's goods which are disastrous to a satisfactory state of trade. It may be shown that the costs of these deflationary processes are more onerous for every one than the costs of paying to ourselves the British debt to the United States Government. Likewise it may be demonstrated, in theory at least, that the costs, even for wealthy people, of prolonged deflation of domestic debts may exceed the costs of a quick cancellation of debts by an even capital levy. It is possible to show that deflation confiscates quite as well as taxation. If an attempt to sustain credit values enforces steadily declining production, because of the diminishing power of consumption of the debtors, it must eventually transpire that a large part of credit values will be lost by defaults and bankruptcies. Credit and property values cannot be maintained in a nation of declining production and consumption. Classical economists who wonder that the American people cannot see the logic of war-debt cancellation should remember that the collection within the United States of a large volume of interest for the consumptive expenditures of governments (federal, state and municipal) which have been unwilling to tax, or of individuals who have been unwilling to wait, or for the unwise investments of traders on equity, greedy for large profits in over-expanded industries—also sets in motion factors of industrial paralysis.

I am heartily in favour of war-debt cancellation, but by the same logic I find myself forced to embrace, in theory, at least, the ideal of a debtless economy and to favour drastic measures for the immediate reduction of the domestic debt burden in the United States. I need scarcely add that I use credit throughout this paper as a term for interest-bearing debt. There is, of course, a sense in which all titles to property, including currency, are credit instruments.

As my undertaking in this paper is only to provoke critical consideration of the desirability or inevitability of interest-bearing debt, I do not attempt to outline a scheme of capitalistic economy in which interest-bearing debt would be virtually eliminated. I know no reason to assume that a debtless economy would be impossible, given the necessary will for its achievement.

In challenging the expediency of debt on the ground that it is mechanically unsound and socially unethical to attempt to enforce interest payments which are not earned by the use made of the borrowed funds, I wish to anticipate one line of reply. Economists are nowadays given to rather generous admission of the institutional frictions of our present system, but they are quick to add that most of these frictions could be satisfactorily reduced without recourse to any such revolutionary changes as the elimination of interest. Incidentally, I may observe that economists display a remarkable unanimity about the inexpediency of any drastic change and the widest disagreement about nearly every minor proposal. In the case of interest, classical economists will, doubtless, say that most of the evils of interest grow out of price changes, and that a great deal can be done to stabilise prices.

With regard to this answer, it occurs to me to state summarily three points: First, it is not proved that price stability would eliminate the evils of interest charges on uses of consumptive credit, particularly for wars. And, if anybody can borrow, the State will always be the largest borrower. Secondly, it is begging the question to talk of eliminating the evils of debt by stabilising prices, inasmuch as large-scale uses of credit are probably the main factor disturbing price stability. It is equally begging the question to say that unwise uses of credit are the cause of extreme price fluctuations and many of the hardships of debtors. If there were a way of insuring against unwisdom in the use of credit for production, profits would disappear and the only reason for a use of credit in production would cease to exist. Thirdly, no one has yet shown how prices can be stabilised or past fluctuations seriously reduced in a world of freedom of contract, credit and wars. It misses the points of any adequate critique of interest-bearing debt to talk wishfully about co-operation and planning to reduce the amplitude of the fluctuations of the general price level.

It is open to question how much an elimination of interest-bearing debt would contribute to the stabilisation of prices. But it does seem a more fruitful field for study and experimentation than that of credit and price control in a world which seeks to maintain freedom of private enterprise. It also seems probable that a debtless economy might minimise both the frequency and magnitude of wars. If wars had to be financed by capital levies, the rich would be our most effective pacifists. If foreign loans to warring Governments were eliminated, wars would necessarily be smaller.

In this connection I think the apologists of credit should recall that the institution had its earliest growth, and subsequently has had its most significant expansion as a tool of governments engaged in the prosecution of war. But for a faith in British and French promissory notes, the people of the United States would certainly not have developed a sufficient attachment to the cause of world democracy and other pleasant abstractions to fight a forty-billion-dollar war. A British default on its war debt to the American Government will constitute an epoch-making lesson to neutrals as well as a vindication of canonist doctrine. The trader's notion of neutrals' rights has not been concerned with the necessities of life for the neutral, but with safety of person and property in the traffic of neutral goods for the I.O.U.'s of the belligerent. It seems evident that these goods ought not to be delivered by neutrals, and that it serves them right to discover after the war that their war-gotten foreign assets must prove largely worthless.

Much has been written about the benefits of productive credit, but very little on the subject of destructive credit. The successes of credit in mobilising the maximum productive powers of a nation for the ends of destruction have been glorified by economists. It remains for them to show how many depressions have been arrested by the credit institutions.

The effectiveness or impotency of credit is now being tested. The next ten years should furnish evidence on which to pronounce a verdict. If, without a war, it is found possible through the wise use of credit—now the chief preoccupation of the American Government—to check the present decline and to stimulate an upturn, the defenders of interest will have a stronger case. If a war has to take us out of the present depression, or if Government expenditures financed by capital tax levies, accompanied by a large-scale issue of fiat money or practically non-interest-bearing central bank credit, proves to be the way out, then the case of interest will appear well-nigh hopeless. Credit is on trial.

It seems appropriate in 1932 to discuss interest and debt in the light of present-day realities, and not class-room hypotheses showing how credit is understood by its apologists to work. The canonist doctrine cannot be dismissed by simplest hypotheses which are as remote from most of the realities of to-day as free land for American settlers. The canonist doctrine should be discussed in the light of the hypothesis that the British nation cannot honour its I.O.U. This hypothesis will be found highly relevant both to canonical thought of the fifteenth century and

realities of the twentieth. The era of transition from feudalism to commercialism and industrialism, as well as of the opening up of new continents, furnished grounds for a great deal of facile though generally specious refutation of the canonist doctrine on usury. The class-room hypotheses did not seem altogether grotesque during that era. The realities of to-day are less tolerant of the Calvinistic harmonies between private greed and public good. As an American, who is not unread in economic subjects, I must say that I find far better arguments for the cancellation of war debts among the canonists than I find among the neo-classicists. There is something peculiarly incongruous about any theoretical defence of interest made in 1932 by a British economist. A transient industrial supremacy furnished an excuse for Macaulay's youthful bantering of Adam Smith's sounder criticism of the growth of the British public debt. But in 1932, when the world's premier lender and borrower, and still an immensely rich nation on international balance, is forced to default on a foreign debt and to tolerate an unstable currency, it seems a trifle humourless for British economists to dismiss as long since refuted the canonist doctrine on usury. Of course, some British economists may find a satisfactory explanation in blaming foreigners for management of gold, credit, tariffs, foreign investments, prices and sundry other matters in ways unfavourable to the proper functioning of the British credit system. But why is it a scientific explanation to blame the other fellow for the breakdown of one's system? And why is it an exploded fallacy to say, along with the canonists, that the money-lending system is fundamentally wrong?

LAWRENCE DENNIS

New York.

II. USURY AND STANDSTILL

AFTER Mr. Keynes has chivalrously thrown his shield over me, I feel no need to defend myself against the other distinguished symposiasts in the ECONOMIC JOURNAL for March. Still less do I feel disposed to draw the bow of Ulysses by attempting to expound the true meaning of the *Treatise on Money*. Of course I never suggested that the Canonists held the very same theories as Mr. Keynes, but only that he throws new light on the Canonists' practical precepts and serves to make their prohibitions and allowances more defensible theoretically than modern economists have generally admitted. Apart from theory, the Canonist attitude needs no defence. Economic historians, among whom Cunningham and Ashley may be named, are mostly agreed that

in the conditions of the time the prohibition of usury served the welfare of society. It can hardly be said that the practical influence of modern economic theory has been equally happy. The tendency of legislation in the Western world is to restore some of the restrictions on money-lending which were abolished during the reign of *laisser-faire.* Modern experience has been too much for modern theory. For the most striking example of reaction of observers against the results of modern theory, readers should turn to the chapter entitled "Indebtedness" in the 1931 Report of the Royal Commission on Labour in India. In all social history there are few pages so shocking as these, and the Royal Commission (on p. 229) apportions a measure of responsibility for the evils it describes to the influence of nineteenth-century economic thought.

It is not obvious that the modern economist, even on the ground of theory, is entitled to be supercilious towards the Canonists. It is several centuries since the world emancipated itself from the authority of the Canonists, and there has been ample time to construct a true theory of interest, but there is no theory in possession of the field to-day. Böhm-Bawerk wrote a volume to expose the errors and inadequacies of all his contemporaries and predecessors, and Professor Cassel has written a monograph in which he assails the errors and inadequacies of Böhm-Bawerk. The lack of a holeproof theory of interest was manifest to the student before Mr. Keynes began his new questionings, and I imagine that opinion is now less settled than before.

But the principal reason why economists to-day should be less complacent in disdain of the Canonists is that the system of loans at interest is to-day in ruins. It has collapsed before our eyes. With perhaps three or four exceptions, which may soon cease to be exceptions, every country in the world has, since the War, defaulted on its debts either directly or by going off the Gold Standard. It appears to me that it is a vice of interest that is at the root of the breakdown, but at this stage of the argument I only ask if it occurs to economists that the theories they expound have reference only to a system that has ceased to function? The technical word for the position now is standstill!

I now come to set forth what may conveniently be called the Canonist theory, or, more strictly, the theory of St. Thomas Aquinas which was held to support the Canonist legislation. The Canon law against usury was not originally based on any theory. It was based on the Scriptural law which was believed to possess Divine authority. The theory was evolved to explain the law

and rationalise its application. St. Thomas and his school did not make the same kind of economic analysis that we make to-day. The principal economic division which they made was between fungibles and non-fungibles, terms which are, I believe, still used in law, though not in economics. A fungible good is one which is consumed in being used, a good which has no negotiable usufruct, a thing whose use cannot be sold, lent or given away apart from the thing itself. Bread is a fungible good—the only use of bread is to be eaten, and when it is used it passes out of existence. You cannot sell the use of bread while reserving the ownership to yourself. A house is a non-fungible—it is not consumed in being used, and it is perfectly possible to sell the use of a house for a period without selling the house.

The Canonist taught that when a buyer had paid the price representing the value of a fungible, he could not justly be required to pay something extra for its use. If sixpence was the just price of a loaf, it was unjust to charge an additional penny for its use. When a man bought the loaf, he bought its use, and he could not buy the use without buying the bread.

An impatient reader may be bursting to ask, What has a sale to do with interest, since interest pertains to a loan, not a sale? The answer is that, strictly speaking, a fungible that changes hands is not loaned, for it is not returned. The transaction is a transfer of ownership as well as of possession, it is an exchange, a sale, not a loan. The Canonists held money to be a fungible, it was consumed in being used. Mr. Keynes makes the same point when he says, " A man does not hold money for its own sake, but for its Purchasing Power " (Vol. I. p. 53). Money was held to be a medium of exchange, and when it was once used by the borrower it was, as far as he was concerned, used up—it was, in the full sense of the word, spent. What is called a loan of money is, therefore, an exchange, and it was described by the Canonists as a sale. The ownership, nor merely the use, was transferred to the so-called borrower, who was really the buyer. It was unjust, therefore, to charge him for the use of his own property. The productivity of the operations in which the money was used by the buyer does not give the seller any title to interest.

No modern economic theory meets the Canonist argument. Productivity of capital? Interest is paid on money, not on capital, and it has to be paid irrespective of productivity. The reward of waiting? This is only the change of a word from the reward of abstinence, a theory over which Professor Cannan makes merry. The higher value of present over future goods? This

only explains why borrowers are willing to pay interest, and therefore why lenders are able to exact it. But it equally explains both the unconscionable extortion which even modern economists reprobate as usury and the commercial interest of the money and capital markets. The argument that the modern critics of the Canonists think is their trump card is a demonstration not of the rightness of interest, but its inevitability. When there is exchange for present against future goods, interest must arise, because the difference between present and future values is itself interest. I do not deny the fact of differences of valuation between present and future goods, but I submit that the theory of interest founded thereon is abstract to the point of unreality. The theory isolates something called Pure Interest, something that results exclusively from the time-factor in valuation and is separate from profits due to management and the running of risks. Yet this Pure Interest may never have any identifiable existence in actual business; it may never have entered into the calculations of those who supply the capital. We can go further, and say that identifiable Pure Interest is rarely, if ever, paid in connection with real capital. When economists try to give examples of Pure Interest, from which elements of profit and insurance are excluded, they generally point to the return on first-class Government securities. Thus the standard example of Pure Interest is afforded not by capital assets at all, but by debts.

The debentures of very sound companies may possibly be quoted as yielding Pure Interest. I lay no emphasis on the fact of debentures representing debts, but it is important to note that sound debentures, and therefore the Pure Interest derived from them, can only come into existence after the business has been long established and profits have been earned and put back into the business; and as soon as the profits seriously decline, the Pure Interest vanishes, for the reason that the debentures cease to be riskless and the return on them represents something that is not interest.

The submission I am making is that in productive industry the allegedly inevitable Pure Interest rarely has actual existence, and when it does exist it is not a necessary thing, but is contingent on profits, past and current. Pure Interest has its existence mainly in the minds of economists; it is a concept useful for purposes of analysis and exposition, like Consumers' Rent, when theorists do not allow it to run away with them, but its importance in practical economics is very limited. This remark

is applied, of course, to pure, ideal interest, not to the real, actual interest that the world of debtors has to pay.

The merit of the Canonist theory is that it kept clearly in mind the fact that interest is a charge for the use of money, not a yield from the investment of capital. It is an error of modern theory to treat interest as the price of, or return from, capital. Money is not capital, it is not even "representative capital," though it is potential capital, but the lender of money does not make the change from potency to act. Capital only exists as capital goods, and the service of converting money loans into capital, of using it productively, of Investment, in Mr. Keynes' word, is performed by the borrower when it is performed at all.

Canonist legislation prohibited all interest—we need not here consider exceptions based on extrinsic titles like *lucrum cessans*—but freely allowed profits even to sleeping partners. It is only a partial explanation to say that the Canonists recognised that risk gave a title to reward. Risk by itself gave no title. You could not bargain for interest because you were lending money to a doubtful character. Interest was forbidden, while profit was allowed, because interest arose simply from a loan of money and profit from an investment of capital. The investor of capital had not transferred his ownership, and therefore he was entitled to its product. The "lender" of money had transferred ownership, and therefore had no right to the profits from its use. In striking at interest on money loans the Canonists were striking at Saving-without-Investment—apart from that which consists in the simple hoarding of currency. At the same time, they were positively encouraging, both by their prohibition of interest and their allowance of profit, Investment in the sense of the production of capital goods. It is astonishing to find economists writing as if lending naturally implied Investment, simultaneous or subsequent. Mr. Keynes' conclusions from analysis could be illustrated from Cunningham's account of the opinion of the City authorities in the fourteenth century. These authorities approved of the laws against money-lending for interest. "Just because men could make large sums by lending, they were less likely to join in partnerships, and undertake the risks of trading." [1]

Money-lending without Investment was recognised practically and theoretically as a social evil in the fourteenth century. Mr. Keynes' "Saving without Investment" is correctly translated as Money-lending without Investment, it being understood that

[1] *Growth of English Industry and Commerce: Early and Middle Ages*, p. 333.

savings deposits are regarded as lending. It is not my point that the distinction which the Canonists drew between interest and profit coincides with a distinction between interest on savings represented by debts and interest on savings represented by assets. The lending of money necessarily involves a debt, and it never by itself constitutes an asset, though it may be balanced by an asset if the borrower invests successfully.

The great support which Mr. Keynes gives to the Canonists I take to be this: his strong distinction between Saving and Investment shows that it is theoretically wrong to treat money as representative capital and lending as Investment. Interest is the price paid for the use of money, it is not the yield of capital. The marginal productivity of capital, proved or assumed, may be one of the factors that go to determine the rate of interest, but interest has no necessary relation with capital productivity.

H. Somerville

Decreasing Costs: A Mathematical Note

This note is an attempt to interpret, in terms of the mathematical analysis of production, some points made by Mr. Sraffa and Mr. Harrod [1] on the question of the consistence of competitive equilibrium with decreasing costs.

I

The following simplifying conditions are assumed.[2] A single commodity X is considered. On the supply side, there are n sources of production of X and m factors of production A, B, C . . . are used. The factors are obtained at given prices p_a, p_b, p_c . . . and the production function for each source is given in the form

$$x_r = \psi_r (a, b, c \ . \ . \ .) \qquad r = 1, 2, 3 \ . \ . \ . \ n$$

where x_r is the amount of X produced at the rth source by combining amounts a, b, c . . . of the m factor of production. On the demand side, the total demand (x) for the commodity at a uniform price (p) is given by the demand function, $x = f(p)$, assumed to be independent of the prices of other commodities. It is further assumed that the number of sources of production is so large that no one source can have any direct effect on the

[1] Economic Journal, December 1926, June 1930 and December 1931.

[2] The analysis which follows can be generalised to include the production of any number of commodities and to take account of the demand for commodities and of the supply of factors on the basis of individual marginal utilities.

uniform selling price p. Finally, transport charges will be taken into account, but otherwise it is assumed that the conditions for a perfect market are satisfied.

At the rth source of production, for a given output x_r, the factors of production are adjusted so that the average cost of production per unit (π_r) is a minimum. The equations

$$\left.\begin{aligned} x_r &= \psi_r(a, b, c \ldots) \\ \pi_r x_r &= p_a a + p_b b + p_c c + \ldots \\ \frac{\frac{\partial \psi_r}{\partial a}}{p_a} &= \frac{\frac{\partial \psi_r}{\partial b}}{p_b} = \frac{\frac{\partial \psi_r}{\partial c}}{p_c} = \ldots \end{aligned}\right\}$$

are thus obtained.[1] From these $(m + 1)$ equations, $a, b, c \ldots$ can be eliminated, giving the supply equation for the rth source of production

$$\pi_r = F_r(x_r) \quad \ldots \ldots \ldots \quad \text{I.}$$

There are n such supply equations ($r = 1, 2, 3 \ldots n$), obtained by considering the adjustments that take place at each individual source for any given output. On the demand side, it is simply given that the total output and the uniform selling price are related

$$x = f(p) \quad \ldots \ldots \ldots \quad \text{II.}$$

The next step is to relate supply and demand; there are n independent variables (x_r) on the supply side and one independent variable (p) on the demand side. In addition to the actual cost of production, each source of production must take into account its marketing expenses, including transport charges and, perhaps, a few other items.[2] For simplicity, take the marketing expenses of each source as a function of the ratio of the source's individual output to the total output (and demand). As this ratio increases, whether the total demand increases, decreases or remains constant,[3] the marketing expenses increase. Hence, the marketing expenses of the rth source of production

$$= \phi_r\left(\frac{x_r}{x}\right) \text{ where } \phi'\left(\frac{x_r}{x}\right) > 0$$

At a uniform selling price p, the profits of the rth source, over and above the actual costs of production, are

$$(p - \pi_r)x_r - \phi_r\left(\frac{x_r}{x}\right) \text{ where } \pi_r = F_r(x_r).$$

[1] Cf. Bowley, *Mathematical Groundwork of Economics*, pp. 36–7.

[2] It is not possible, however, to allow for advertisement charges without disturbing the conditions for a perfect market on which the analysis is based.

[3] Assuming that any variation in demand is distributed uniformly over the whole market.

For given p, the output x_r is chosen so that profits are maximised, *i.e.*

$$\frac{d}{dx_r}\left\{(p - \pi_r)x_r - \phi_r\left(\frac{x_r}{x}\right)\right\} = 0$$

or

$$\pi_r = p - x_r F'_r(x_r) - \frac{1}{x}\phi'_r\left(\frac{x_r}{x}\right) \quad . \quad . \quad . \quad \text{III.}$$

There are n such equations ($r = 1, 2, 3 \ldots n$).

Finally,

$$x = x_1 + x_2 + \ldots + x_r + \ldots + x_n \, . \quad . \quad \text{IV.}$$

The equations I–IV are sufficient to determine the $2(n + 1)$ unknown quantities

$$x_r,\ \pi_r (r = 1, 2, 3 \ldots n),\ x \text{ and } p.$$

II

Consider the relation of this analysis to the question of decreasing costs. The rth source of production is subject to decreasing costs if $F'_r(x_r) < 0$. Without the term $\frac{1}{x}\phi'_r\left(\frac{x_r}{x}\right)$ the equation III would then give $\pi_r > p$, *i.e.* the rth source would sell at a price below cost price. In the words of Professor Bowley,[1] "If the producers' supply equations show constant or increasing return, no equilibrium is in general reached theoretically till one has driven all the others from the market or combined with them." When marketing expenses are included, however, π_r can be less than p even under decreasing costs, provided that $-F'_r(x_r) < \frac{1}{xx_r}\phi'\left(\frac{x_r}{x}\right)$ which is positive. Competitive equilibrium is, in fact, consistent with decreasing costs "when small individual firms are held in equilibrium by being subject to increasing marketing expenses."[2] Notice that costs cannot decrease at all rapidly unless the rate of increase of marketing expenses is large.

Further, the analysis seems to clear up Mr. Sraffa's difficulty that, though it is formally correct to include marketing expenses in the cost of production, it is unsatisfactory to do so. It appears that marketing expenses, which depend on x as well as on x_r, should not be included in the actual production costs, but taken into account in the determination of individual outputs to meet the total demand. Marketing expenses appear, therefore, neither on the supply side nor on the demand side, but in the relation between the two. Mr. Harrod, considering only a single supply schedule and a demand schedule, comes to the conclusion that marketing expenses must be included in the supply function,

[1] *Mathematical Groundwork of Economics*, pp. 36–7.

[2] Mr. Harrod, ECONOMIC JOURNAL, December 1931.

which, therefore, becomes dependent on the state of demand.[1] This representation of the problem is an over-simplified one, and Mr. Harrod, I think, attempts to extract too much from it. Two-dimensional representations are easily over-strained.

Notice that the individual sources of production are able to make profits, over and above the actual costs of production, simply because their production functions are different, *i.e.* because production is carried on under different conditions at different sources. If the production function and the marketing expense function are the same for all sources, there is no point in considering the sources separately, and the total receipts will exactly cover the costs of production (plus marketing expenses).

Finally, if short-period production is considered, suppose that each source of production makes use of a fixed amount of plant. Let the factor A represent plant, and the amount a_r ($r = 1, 2, 3 \ldots n$) used at each source is fixed. Instead of the equations I, short-period supply equations $\pi_r = F_r(x_r, a_r)$ are obtained for given a_r and x_r. Giving a_r various values, we obtain a family of short-period supply curves for the rth source of production, corresponding to Mr. Harrod's family of parabolas.[2] Short-period decreasing costs correspond to $\frac{\partial F_r}{\partial x_r} < 0$, and this is consistent, as before, with competitive equilibrium if the rate of increase of marketing expenses is sufficiently high. The long-period supply equations I are re-obtained by minimising π_r for variable plant a_r, *i.e.* from $\pi_r = F_r(x_r, a_r)$ and $\frac{\partial F_r}{\partial a_r} = 0$, which give the envelope of the family of short-period supply curves as the long-period supply curve.

R. G. D. Allen

London School of Economics.

Supplementary Note on Canadian Economic Conditions in 1931–2

Publication of the report of the Canadian National Railways for 1931 and of the budget for 1932–3 warrants a brief supplementary note to *Economic Conditions in Canada, 1931–2*,[3] in the interests of greater precision and with a view to reinforcement of the general conclusions. The budget speech of the Finance Minister announces a deficit of \$119,000,000, expenditures \$454,000,000, including \$379,000,000 ordinary expenditures,

[1] "Cost becomes a function of two independent variables, quantity of output and state of demand" (*ibid.*).

[2] *Ibid.*

[3] Economic Journal, March 1932.

$17,000,000 capital expenditures, $55,000,000 special expenditures and $3,000,000 non-active loans and advances, as against receipts $335,000,000. Net debt increased, therefore, from $2,262,000,000 in 1931 to $2,381,000,000 in 1932. In 1932–3 ordinary expenditures include $236,000,000 of uncontrollable expenditures ($10,000,000 over last year) and other items, practically uncontrollable as a result of severe reductions (to the extent of $35,800,000), making a total for the budget of $369,900,000. Old taxes are expected to yield $319,100,000 and new taxes involving an increase of the sales tax from 4 to 6 per cent., an increase in excise tax on imports from 1 to 3 per cent., and other forms of taxation, such as stamp taxes, are expected to bring in $55,000,000. With only slight changes in the tariff, customs are expected to yield $100,000,000; excise $45,000,000, sales tax $70,000,000 (last year $41,000,000) and income tax $48,000,000 (last year $61,000,000).

The new budget makes no provision for expenditures, other than ordinary expenditures. Other expenditures, including unemployment relief, totalled $75,000,000 last year. The policy of giving indirect relief through public works has been definitely abandoned, with the result that direct relief will become an important item. In addition, the Finance Minister estimates that $16,000,000 will be spent on projects initiated last year. The budget, following earlier practice, has been presented without reference to the Canadian National Railways. The report for the calendar year 1931 shows a decline in net revenue from $22,000,000 in 1930 to $1,000,000 in 1931 and an increase in the net income deficit from $36,000,000 to $61,000,000. In addition, the railroad owes the Government $33,000,000 for interest on loans. It will be necessary for the Government under these circumstances to float a substantial loan in the not distant future.

The demands of the Dominion Government have been paralleled by the demands of the provinces and municipalities. Bank loans have increased as follows:

1931–2 (Millions of dollars).

	Municipalities.	Provinces.
January (1931)	105·22	26·31
August	111·98	24·78
September	114·79	32·99
October	113·84	38·34
November	118·13	42·05
December	125·69	45·56
January (1932)	132·86	43·44
February	139·29	56·23

Provinces and municipalities have been reluctant to convert borrowings to long-term bonds because of high interest rates. Ontario, for example, floated an issue on February 1 of $5,000,000 for three years at 6 per cent. and of $20,000,000 for fifteen years at 5½ per cent.

The demands for capital and high interest rates have contributed to the difficulties of private borrowers. The main items of the bank statements indicate the character of the problem.

Abstracts of Bank Statements, 1931–2.

(Millions of dollars.)

	Sp	Dominion Notes Owned by Banks.	Government Securities.	Dominion Notes under Finance Act.
Jan. (1931) .	71·23	110·17	396·77	12·5
Aug. .	64·57	98·99	452·41	6·5
Sept. .	71·50	110·39	455·93	19·5
Oct. .	89·95	111·86	487·91	24·5
Nov. .	87·61	153·65	507·76	66·5
Dec. .	65·82	128·86	477·91	49·0
Jan. (1932) .	64·91	131·11	467·56	45·0
Feb. .	62·59	123·81	460·03	36·5 (25·0 Royal Bank)

	Current Loans.	Call Loans in Canada.	Call Loans Abroad.	Savings Deposits.	Total Deposits.	Bank-note Circulation.
Jan. (1931)	1141	192·02	214·80	1428	1985	141·44
Aug.	1127	158·63	109·67	1461	2030	141·81
Sept.	1137	166·58	90·10	1456	2050	139·91
Oct.	1141	153·58	90·74	1462	2043	152·93
Nov.	1102	156·90	112·75	1396	2013	145·53
Dec.	1082	134·73	83·12	1360	1937	145·01
Jan. (1932)	1071	131·17	65·92	1368	1875	133·67
Feb.	1063	129·76	98·95	1390	1886	134·29

Trade statistics for the fiscal year show a decline as follows:

(Millions of dollars.)

	1930–1.	1931–2.
Exports . .	800	586
Imports . .	907	579
Excess of exports	– 107	+ 7

On April 19, exchange on New York was $90\frac{1}{16}$ cents. National income[1] is estimated to have declined from $5,123,000,000 in

[1] I am indebted to Mr. D. C. MacGregor for these estimates. They have been worked out along similar lines to the estimate of the Dominion Bureau of Statistics giving $5,586,000,000 for 1929. He estimates that the percentage of total debt charges, dominion, provincial and municipal, to national income has increased from 3·6 in 1928 to 7·1 in 1931.

1930 to $3,806,000,000 in 1931. Prospects are not bright for a good wheat crop in 1932.

H. A. INNIS

Toronto.

A NOTE ON CANTILLON

THE *Essai* by Cantillon, the latest of the special publications of the Royal Economic Society,[1] has had a gratifying reception in the press of different countries and has led to communications to the Editor, some of which are of general interest.

Professor A. W. Marget, of the University of Minnesota, calls attention to a passage in the *Abhandlung von dem Geldsumlauf* of J. G. Büsch, Hamburg and Kiel, 1780, 2 vols., 8vo. In the Preface to Vol. I. (pp. 17 and 18, unnumbered) Büsch refers to Cantillon and adds, in a footnote: "Author of an Essay on the Nature of Commerce, of which I have before me the French translation, London, 1755, 8°. He was a rich merchant in London who, after he had retired from business, was murdered by his valet, who set fire to the house and took flight, but shot himself in America, whither he had been pursued." Büsch, the last of the old German mercantilists, was Professor of Mathematics and founded the Handelsakademie in Hamburg, of which he was the Director. He was a prolific writer upon Money and Trade and his works are of considerable interest and ability.

Mr. J. C. Nagle, of Cork, has obligingly communicated to the Editor a copy of the "*Généalogie de la famille de Cantillon*, par Joseph et Henri Cantillon de Lacouture. Bellac. Imprimerie de J. J. Th. Clochard, 1879, 30 pp." This supplements, and in part corrects, the *Notice Historique* by the Chevalier O'S[ullivan], 1841, but is mainly concerned with the branch of the family exiled in France after the Civil War. It adds nothing to our information about the economist. Mr. Nagle has contributed to the Dublin review *Studies* for March 1932 an article of 18 pages on "Richard Cantillon of Ballyheigue. His place in the History of Economics." This will be read with interest by admirers of Cantillon, and is based upon an unpublished thesis on the subject. Mr. Nagle has made some further inquiries into the Irish records of the family. It is unfortunate that he begins his article with a statement that Cantillon "travelled as far as Japan and Brazil"

[1] *The Life and Work of Cantillon*, edited by Henry Higgs. Pp. ix + 394. Price to members of the Royal Economic Society, 7*s*. 6*d*.

—a blunder originating with Legrand in 1891 and copied by Professor Gonnard and other French writers. The error and its explanation are exposed in a note on p. 364 of the *Essai* (Higgs's edition). There is no reason to think that Cantillon's travels extended beyond Europe.

Mr. Nagle has also sent us a copy of a piece of music entitled "The Lament of Richard Cantillon," extracted from Petrie's *Ancient Music of Ireland*, 1855. This was "written about the year 1750 by Richard mōr [great] Cantillon of Rath Fraoich . . . between Clann-a-Tochair and Ballyheige, and addressed to the beautiful Bridget O'Halloran." The composer was probably the nephew of the economist, who at four years of age was made a nominal partner in the firm of Cantillon and Hughes in Paris from 1720 to 1723 in place of his uncle and namesake. Cantillon left a legacy and an annuity to his nephew Richard, and can hardly have had more than one of that name or he would have needed to add some distinction. The lament is considered by Professor Foxwell to show musical genius and in pure beauty of tone to be reminiscent of Gluck.

Noteworthy among the reviews of our edition of the *Essai* is the long and highly laudatory article by Professor Luigi Einaudi in *La Riforma Sociale*, Turin, Jan. and Feb. 1932. He describes it as a model of what an edition of a great classic should be, asserts that even a small part of Cantillon's anticipations of modern economics would suffice to set him on a pedestal of glory, and that no one can dispute the claim that he was the first great writer on "pure" economics.

The claim has, however, been questioned in the Literary Supplement of *The Times* by a reviewer who, while not unappreciative of the merits of the *Essai*, says that Jevons "overshot the mark" in describing Cantillon's work as the first treatise on economics, and asks, "What of Montchrétien's, *Traité de l'Œconomie Politique* published in 1615?" The short answer to this is that Montchrétien was not an economist at all. His work is a rehash of Bodin and earlier writers on politics. Professor Gide, whose recent death we have to deplore, says that the title of the book "is practically the only portion that has deserved to survive" (Palgrave's *Dict. of Political Econ.*, s.v. French School). It may be questioned whether even that merited survival or will survive much longer. The title Œconomics used by Xenophon and Aristotle (if titles go for anything in this connection) is much earlier, and is now superseding Political Economy as the name of our science. When Jevons said (p. 360,

Higgs's edition) that the *Essai* was "the first systematic Treatise on Economics" he chose his adjective advisedly. His assertion holds the field, and will probably always do so.

H. H.

The Econometric Society

On December 29, 1930, a group of economists, statisticians and mathematicians met in Cleveland, Ohio, U.S.A., to form a new society, to be called The Econometric Society, an International Society for the Advancement of Economic Theory in its Relation to Statistics and Mathematics. A constitution was adopted and the following officers were elected:

President: Prof. Irving Fisher, Yale University, New Haven, Conn., U.S.A.

Members of the Council:

- Prof. Luigi Amoroso, University of Rome, Rome, Italy.
- Prof. L. v. Bortkiewicz, University of Berlin, Berlin, Germany (now deceased).
- Prof. A. L. Bowley, London School of Economics, London, England.
- Prof. François Divisia, École Polytechnique, Paris, France.
- Prof. Ragnar Frisch, University of Oslo, Oslo, Norway.
- Dr. Charles F. Roos, Smithsonian Institution Building, Washington, D.C., U.S.A.
- Prof. Joseph Schumpeter, University of Bonn, Bonn, Germany.
- Prof. E. B. Wilson, Harvard University, Cambridge, Mass., U.S.A.
- Prof. Wl. Zawadsky, University of Wilno, Wilno, Poland (now Vice Minister of Finances in Warsaw, Poland).

Later Prof. François Divisia was elected Vice-President, Dr. Charles F. Roos, Secretary, and Mr. Alfred Cowles, 3rd, of Colorado Springs, Colorado, U.S.A., Treasurer.

The first European meeting of the Society was held September 22–24, 1931, in Lausanne, Switzerland. Professor Boninsegni, Prof. Gustavo Del Vecchio, Prof. Marco Fanno, and Prof. G. Darmois presided at these sessions, at which papers were presented by the following persons: Prof. Ragnar Frisch, Prof. René Roy, Prof. Boninsegni, Dr. Johan Akerman, Dr. Otto Weinberger, Prof. Del Vecchio, Prof. Piero Sraffa, Dr. Jacob Marshak, Dr. Fanno, Dr. Hans Staehle, Prof. Darmois, Dr. Le Corbeiller,

Dr. P. N. Rosenstein-Rodan, Prof. G. H. Bousquet, and Dr. J. Tinbergen.

Meetings were held in the United States in Washington, D.C., December 28 and 29, 1931, in connection with the annual meetings of the American Economic Association and the American Statistical Association. Prof. Irving Fisher and Prof. Frederick C. Mills served as chairmen of these sessions, at which the following persons presented papers: Prof. J. H. Rogers, Col. M. C. Rorty, Dr. Mordecai Ezekiel, Prof. H. C. Carver, Dr. Carl Snyder, Prof. Holbrook Working, and Prof. Henry Schultz.

The Econometric Society also held joint meetings with Section K of the American Association for the Advancement of Science, in New Orleans, La., on January 1, 1932. Prof. G. C. Evans and Prof. Harold Hotelling presided at these sessions, and the papers were read by the following men: Dr. C. F. Roos, Dr. W. A. Shewhart, Prof. Hotelling, Prof. E. B. Wilson, Prof. Evans, Dr. Joseph Mayer, and Prof. J. B. Canning.

The Society plans to hold meetings between June 20 and 25 in Syracuse, New York, and in Atlantic City, New Jersey, in December 1932. Probably European sessions will also be held during the current year.

There are one hundred and ninety Charter Members of the Society, but nomination to its regular membership is now open to all those interested in the field of econometrics, including young economists and graduate students. To become a member of the Society a candidate must be proposed to the Council by two other members. If the candidate is then nominated by the Council, his name is submitted to all members of the Society for their vote.

The Econometric Society will publish a quarterly journal, *Econometrica*, of which Prof. Ragnar Frisch of Oslo, Norway, is the Editor-in-Chief, and Mr. Alfred Cowles, 3rd, of Colorado Springs, Colorado, U.S.A., the Circulation Manager.

OBITUARY

Charles Gide

It is my sad duty to open my tenure of the office of Correspondent, which the Royal Economic Society has been good enough to assign to me, with an obituary of my predecessor, who had held the position since the foundation of the Society, and had played so noteworthy a part in the development and teaching of economic doctrine in France.

If we would appreciate this part, we must recall what economic science was in France fifty years ago, when Gide's little manual, which was destined to achieve so brilliant a success, was first published. At that time a school of French physiocratic origin, whose representatives exercised a kind of semi-scientific, semi-dogmatic dictatorship at the Collège de France, at the Académie des Sciences Morales and on the *Journal des Economistes*, reigned supreme and unchallenged. Liberalism was their creed: a creed which had battled since 1830 for political liberty, free trade, freedom in banking and the gold standard, and had emerged from the struggle victorious and strengthened, and convinced too that the future was absolutely secure. After the Church Militant, the Church Triumphant.

But after 1880 the doctrines of Protectionism and Socialism began to gain ground in France, and the new German Empire showed leanings towards State socialism. The economists of the French Liberal school condemned both tendencies as an extremely dangerous return to outworn theories, which the commercial treaties of 1860 and the failure of the Paris Commune in 1871 had signally defeated. They considered it their first duty to uphold the principles to which they owed their own supremacy. Any signs of interest or even toleration for opposite views they met with instinctive hostility. This bellicose and purely political attitude resulted in a contemptuous neglect not only of the new work of the German historical school, but even of the researches undertaken after Cournot, by men such as Menger, Jevons and Walras. In view of the urgency of problems of the day, the Liberal economists deemed those researches over-subtle and wasteful of good time. Perhaps too they scented danger to their own theories from the conception of relativity which the scientific spirit tends to bring to bear even on political programmes. Gide, therefore, was right in maintaining that of all the names which the school assumed, its favourite title, that of Liberal, had the least justification. If, that is, we interpret Liberalism as essentially liberty in doctrines and thought.

In 1876 the Faculties of Law were enlarged to include instruction in Economics, facilities for which had hitherto been available only at the Collège de France. The first concrete result of this measure was the publication of two books, which, though very dissimilar in content, roused the ire of the Liberal school in equal degree. One was the work of Cauwès (1878), in whom the protectionist faith found its first enthusiastic defender: the other, by Gide (1883), was much more classical in treatment and very liberal in outlook, but gave evidence of a sympathetic interest both in new economic theories and in social problems. Gide was, at this time, a youthful professor of 35. After teaching at the Faculty of Law at Bordeaux, he was appointed to a similar position at Montpellier near the Cevennes, where he had passed his childhood in the little town of Uzès, which he had regretfully left to pursue his studies at Paris, where he followed his elder brother Paul, afterwards an eminent professor of Roman Law. Charles Gide was never much interested in legal studies. He preferred literature and science, above all astronomy. Political Economy was for him a means of escaping from Jurisprudence, whilst continuing to teach in the Faculty.

A very hostile review of the work of Cauwès appeared in the *Journal des Economistes*. Gide's Manual, written with such literary skill as no one could fail to acknowledge, was less virulently attacked, but immediately aroused the liveliest suspicion, more particularly since the merits of its style attracted a large number of readers at home and secured numerous translations into foreign languages. Gide himself has given an account of these early difficulties in a witty and forceful address delivered last year at the Annual Dinner of the *Revue d'Économie Politique*. It was published in the *Revue* for October, and I venture to refer the readers of the ECONOMIC JOURNAL to a page of history which redounds so much to the credit of the historian who wrote it.

The value of the new manual, published in 1883, lay less in the originality of its economic doctrine than in the open-mindedness with which it welcomed new methods and ideas. Gide was the first to expound the theory of marginal utility; he pointed convincingly to the evidence of historical relativity furnished by existing social and economic institutions, such as private property, the wage system and free trade, and to the changes which the future might yet have in store for them. But above all he aimed at rousing the interest of his readers and students in the movements and unexpected reactions of our evolutionary social and economic order, which had brought out so many new

features in the past century and held the possibility of so many more. Dryness and boredom were Gide's bugbears. His treatises revealed, not the master trying to impose final principles on his readers, so much as the sociologist interested in the development of human societies and anxious to awaken the same interest in his students. Henceforward all Gide's efforts were guided by this desire, and the whole of French economic teaching during the subsequent twenty years was in a measure shaped by this influence. The same ideal inspired the *Revue d'Économie Politique*, which he founded in 1887. He launched a wide appeal to foreign contributors from Germany, England and America; he wanted his Review to be the French organ of all the new thought in Politics and Economics. New movements were not enemies to be fought: on the contrary, he spared no effort to discover in each the element of truth it contained. Very speedily his Review became a centre of attraction for French economists such as Walras, who could not find a platform elsewhere. As for foreign economists there is not a single name of renown in the scientific world, from the Austrian school and the historical German school to Edgeworth, that is not to be found in the list of its contributors. In the same spirit of wide and sympathetic understanding Gide wrote his *Histoire des doctrines économiques*, soon translated into many languages. Although we had not previously worked together and I had no claim except that I was his successor in the Chair of Montpellier, he invited my collaboration in this work.

A little later, when a competitive examination was instituted for the selection of the future Professors in the University from among the graduates in Law, Gide served on the jury almost uninterruptedly either as an ordinary member or as President, and he succeeded in creating the same liberal atmosphere in this sphere. We are therefore justified in crediting to this influence the best part of the eclecticism and the liberty which characterise the teaching of economics in France to-day. This teaching, though far from perfect, admittedly enjoys the perfect academic liberty which is indispensable to the progress of science. Never, in the appointment of a professor, have the candidate's religious, political or social opinions been taken into consideration: his teaching ability and his understanding of economic phenomena have been the sole criteria. It was Gide's great achievement that he steered French Political Economy back into the great international scientific current, out of which it had temporarily dropped. As lately as a few years ago, the

names neither of Gide nor of the principal collaborators in his Review were ever mentioned in papers such as the *Journal des Économistes*, or the *Économiste Français*.

Although I said, a little way back, that Gide was a new force in Economic teaching rather than in Economic theory, I do not overlook the great number of new ideas and ingenious explanations which are found in his treatise. His theory of saving, for instance, which differentiates between saving as such and investment is in some respects akin—although he does not use it as premise to the same conclusions—to the distinction recently drawn by Mr. Keynes between these two economic operations, and adopted as a partial basis for his conclusions in the *Treatise on Money*.

But his work as an economist and teacher, important though it was, absorbed no more than half of Gide's activities. From the very beginning of his career he took the greatest interest in social problems, and he became both the apostle and the theoretical exponent of an original theory of consumers' co-operation known as the doctrine of the School of Nîmes. It is as a social philosopher rather than as economist pure and simple that Gide became famous. For the most striking evidence both of his marvellous capacity for work and of the sensitiveness and enthusiasm which he concealed under a very unemotional demeanour, we must look to the propagandist speeches which were the natural expression of his magnificent oratorical gifts; his lectures on the Co-operative Movement, his treatise on Social Economics, his brilliant courses on Co-operation at the Collège de France (all written and published between his seventy-sixth and eighty-first year!) and his practical leadership of the Consumers' Co-operative Movement in France from 1886 down to the very last weeks of his life. In recognition of his services as a Co-operator and tireless pioneer of social progress, a Chair of Social Economy in the Faculty of Laws was founded for him by the Comte de Chambrun. When he resigned this chair on the eve of his retirement from professional work, the French Co-operative Societies founded a "Chair of Co-operation" in his honour at the Collège de France, a signal proof of their appreciation of the value of his assistance and prestige. M. Millerand too paid his tribute by commissioning Gide to write the great report on the Social Economy Exhibit at the International Exhibition of 1900. As a member of the Conseil Supérieur du Travail and the Conseil Supérieur de la Co-opération, he was privileged to take part in the development of all the social legislation of the fifteen years which preceded the war. Only a few months ago he was organis-

ing an international centre for the keeping of records of the Co-operative Movement, and up to the very last days of his life he never relaxed his efforts for the cause which he held to be the most potent instrument for peace between social classes as between nations.

If we look for the guiding principle underlying the noble achievements which this great worker leaves behind him, we shall find it exclusively in the deep Christian feeling which Gide derived from his education as a Protestant of the Cevennes. Co-operation seemed to him to be the one practical method which true Christianity could adopt in order to imbue not only the moral but the economic life of man with its own spirit. He tells the story of his childhood at the little College of Uzès in the south of France, with a simplicity such as only the great literary gifts and the power of imagination which were his family heritage could achieve. In one of his last lectures he describes with incomparable charm the social circle at Nîmes, wherein the School of Nîmes took shape. Here, with the help of a few friends (among them a pupil of the Fourier of fantastic and prophetic visions to whose work he devoted such searching analysis) he founded the first Co-operative Society, the first Association for the promotion of Peace, and the Society of Christian socialists.

It was at a Co-operative Congress at Lyons in the year 1886 that he first outlined the doctrine of Co-operation in all its fullness, and claimed that its adoption would lead to the abolition of the wage system. Although later he toned down considerably the expression of this, it provoked a veritable rising in arms against him, and the Liberal Economists never forgave him. His failure to be elected to the *Académie des Sciences Morales* was directly due to it, his articles in favour of an Income Tax acting as contributory cause. Gide, on the other hand, wrote numerous articles in criticism of the beaten track which led young economists straight from the Guillaumin Library to the Académie.

It was not until late in life that Gide was called from Montpellier to a Professorship in Paris. He was then fifty years of age and always looked back with regret on his life in the provinces. But his residence in Paris enabled him to do much besides his professorial and co-operative work. He was active in the service of many independent institutions such as the École de Service Social and the Collège des Science Sociales, and his interest in them never flagged. He joined in every liberal campaign—for the defence of the rights of natives in the Colonies, for feminism

and for the promotion of peace, the object of his special devotion. His independence of mind and character, and his indifference to official honours won him great moral prestige. Moreover, his activity and enterprise seemed to increase with advancing years. At the age of seventy-six he set out on a journey first to Moscow and then to Jerusalem, to study the Russian Co-operative Movement and the agricultural Co-operative societies of the Jewish Colonies in Palestine at close quarters. His contact with actual life and his sympathy with all that is alive and new lend to the last volumes that Gide published a freshness of style and feeling which rouses our enthusiastic admiration.

The courage which distinguished him throughout life did not fail him in death, which he faced with stoic calm, although he expressed regret at being compelled to leave unfinished the work he had in hand.

The death of Gide closes a chapter in the history of economic and social thought in France. The war has forced into the background many of the problems which filled the mind of his generation, while problems of currency and finance, and problems of international exchange have come up again with unforeseen urgency. On these topics Gide agreed in the main with the classical school. But they never roused his enthusiasm to anything like the same degree as social questions, and it is in this latter field that his fame will live longest.

CHARLES RIST

LADISLAUS VON BORTKIEWICZ

(Aug. 7, 1868—July 15, 1931).

VON BORTKIEWICZ by far the most eminent German statistician since Lexis, whose pupil he was in important respects, was not a German by descent. He came from one of those Polish families which had made their peace with Poland's Russian lords, and was brought up in St. Petersburg, his birthplace, where he also went to the University and where he later on taught for a time. Connections formed during a prolonged stay in Germany, where in 1895 he had become a Privat-Dozent in the University of Strassburg, led to his being appointed, in 1901, to an "extraordinary" (= assistant) professorship at Berlin. Characteristically enough, this eminent man was never thought of as a candidate for one of the great chairs, either in Berlin or at any other University, and it was not until 1920, when by a measure intended to "democratise" faculties, *all* extraordinary professors became

full professors *ad personam*, that he obtained that rank, without, however, ceasing to be entirely isolated.

There were several reasons for this. He was a foreigner. Although not a clumsy speaker or writer, he was not a good lecturer, and his lectures, which he elaborated with a minute and conscientious attention to details all his own, were said to be delivered to rather empty classrooms. His critical acumen made people fear him, but it hardly contributed to making them love him. Those colleagues whose duty it would have been to propose his name to the Ministries of Education were hardly in a position to understand his contributions. He did not seem to mind, but kept aloof in dignified reserve, enjoying the respect, with which everyone looked upon him, and a quiet scientific life to be cut short in the fullness of his powers by an unexpected death. A bibliography of (as far as I can see) his whole published work has been drawn up by Professor Oscar Anderson,[1] to which I refer the reader.

Nature—it is not often that the goddess makes up her mind so decidedly—had made him a critic, so much so that even his original contributions assumed the form of criticisms, and that critique became his very breath. This critical faculty, or rather passion, which did not stop short at small blunders in numerical examples, stands out particularly in his work as an economist. Here he was not an originator, and I believe he just missed greatness by refusing to put to full use the mathematical tools at his command, which at the time of his prime might have made him rival the fame of Edgeworth or of Barone. But he upheld the flag of economic theory—professing the Marshallian creed—at an epoch and in a country, in which hardly anyone would hear of it, and he cleared the ground of many battlefields by his powerful sword. By far his most important achievement is his analysis of the theoretical framework of the Marxian system (*Archiv für Sozialwissenschaft*, vols. 23 and 25, and *Conrads Jahrbücher*, 1907), much the best thing ever written on it and, incidentally, on its other critics. A similar masterpiece is his paper on the theories of rent of Rodbertus and Marx (*Archiv für die Geschichte des Sozialismus*, vol. 1). Where blunders are secondary and fundamentals sound, as in the cases of Walras, Pareto and Böhm-

[1] *Zeitschrift für Nationalokonomie*, Vol. III, No. 2. In writing about a man who was a paragon of conscientiousness I may perhaps allow myself for once to follow the example set by him, and to point out a misprint occurring on p. 279, sub. no. 2, of the list of his economic papers: He did not, in his critique of Pareto's Cones, reproach the marginal utility school with fostering an "ultra-*radical*" economic policy, but an ultra-*liberal* one.

Bawerk, the stern critic shows to less advantage. As a writer on monetary theory and policy, he ranks high among German authors. The subjects of the gold standard, of banking credit, of velocity of circulation owe much to him. The best he did in this field, however, is his work on index numbers (*Nordisk Statistik Tidskrift*, 1924), a masterly review of Irving Fisher's work amounting to an original contribution in the matter of tests.

In the field of statistical method, his ἀριστεία among Germans is, of course, undoubted. As the discoverer of the "law of small numbers" (1898) and the leader of the Lexian school, he has won an international name which will go down to posterity. His book on probability (*Die Iterationen*, 1917), his only "book"—he had so great an inhibition on giving to the public that he lost some of the claims to high originality which he would otherwise have had—is an admirable piece of work even when looked at without any predilection for the fundamental conception of probability which underlies it. It is impossible, nor would it be proper in an economic journal, to unfold the long list of Bortkiewicz's contributions to the theory of statistics. A few instances of special importance to the economist must suffice. No one has done more to clear up the important subject of the measures of inequality of incomes (nineteenth session of the Institut International de Statistique). Most of us will read with profit and pleasure those excellent papers on the quadrature of empirical curves (*Skandinavisk Aktuarie Tidskrift*, 1926) and on homogeneity and stability in statistics (*ibid.*, 1918), or the one on variability under the Gaussian law (*Nordisk Statistisk Tidskrift*, 1922) or on the property common to all laws of error (*Sitzungsberichte der Berliner math. Gesellschaft*, 1923) or on the succession in time of chance events (*Bull. de l'institut international de Statistique*, 1911)—not to mention any of his papers on mortality and insurance, some of which are treasures of their kind.

But in order to give an idea of the compass of his mind it is necessary to point to one more opusculum of his, far removed though it is from economics: his pamphlet on "Radio-aktive Strahlung als Gegenstand wahrscheinlichkeitstheoretischer Untersuchungen," Berlin, 1913. In turning over the pages of this parergon, one seems to discern the true contour-lines of the mind of the *economist* who wrote it, and one begins to wonder whether one can rely on what he published as a measure of the range of his possibilities.

JOS. A. SCHUMPETER

Current Topics

The following have been admitted to membership of the Royal Economic Society :—

Abrocimoff, Prof. M.
Ackrill, A.
Alford, C.
Allen, H.
Altass, P.
Amelot, R. E.
Armstrong, N. L.
Atkins, F.
Banerji, Prof. N. C.
Baron, C.
Barratt, W. M.
Bebb, Rev. E. D.
Bell, H.
Belton, J. J.
Bente, Dr. H.
Beresford-Stooke G.
Berman, A. H.
Blake, A. M.
Bordoli, E.
Borer, H. R.
Bridson, T. W.
Brown, E.
Bury, C.
Carmichael, W. B. G.
Cavagnaro, Prof. T.
Clark, A. D.
Clifford, J. E.
Cockroft, A. H.
Colombo, Giorgio.
Cookson, W. S.
Couper, A. J.
Curnow, W. I.
Currie, A. R.
Davies, Miss G.
Davies, H. E.
Deacon, F. C.
Dell, H. C.
Disney, M. E.
Dobbs, S. P.
Douglass, Dr. P. F.
Dyason, E.
Ellison, P. A.
Ellsworth, P. T.
Enfield, R. R.
Eyres, J. W.
Fano, Dr. E.
Faulkner, W.
Firth, C.
Flore, Dr. V. D.
Fontannaz, F. G.
Fordham, M.
Fowler, R. F.
Frazer, L. M.
Freudenheim, H.
Gayler, J. L.
Ghose, B. C.
Gibson, Capt. A. H. L
Golding, J. T. C.
Gray, F. W.
Groves, L. P.
Guenault, P. H.
Gupta, M.
Gurwala, S.
Hailes, H. C. T.
Hamilton, H. A.
Hawkins, R. H.
Haynes, F. M.
Helliwell, B. I.
Helsby, L. N.
Hird, F. M. W.
Holland, G. A.
Holman, H. J.
Hudson, J. F.
Jackson, T. B.
Jayawardena, N. U.
Jones, A.
Kashiwal, G. C.
Kay, N. N.
Krzyzanowski, B.
Kularatnam, K.
Lanktree, H. E.
Lawrence, H. W.
Lazzereschi, Dr. M.
Le Lacheur, E. T.
Leake, L.
Lee, Frank.
Lincoln, E. E.
Little, L. T.
Lopez, Prof. J. R.
Lowther, J. R.
Lynch, F.
Macrae, C. J.
Marin, C. H.
Markande, D. D.
Mathulla, K. M.
Michael, O. V.
Midlane, W. H.
Morcher, J. W.
Morley, J.
Mosley, E. S.
Moyer, M. S.
Murray, S. G.
Nolte, J. H.
O'Brien, T. H., Jun.
Oliver, A. A.
Page, C. A.
Parker, R. J.
Paterson, Rev. A. M.
Peck, R. H.
Phillips, L. H.
Pittock, F. A.
Poh, W. T.
Pollock, J.
Potter, H. A.

Pretorius, C. C.
Proctor, G. L.
Radcliffe, J. V.
Raghavan, T. S.
Rajagopalan, P.
Rao, C. R. Krishna.
Rao, S. G.
Ratcliff, D. P.
Rickett, D.
Robinson, J. L. R.
Robinson, K. E.
Rose, D. C.
Ross, Dr. J. F. S.
Samways, R. H.
Sayers, Miss E. M.
Scale, E. T.
Schultz, Prof. H.
Sewell, J.
Sharples, E., Jun.
Shoemaker, Prof. J. H.
Sikand, S. N.
Simhan, K. L.
Simmons, F. S.
Simpson, R. H.
Skepper, C.
Smith, H. J. E.
Smith, H. V. C.
Sommer, Dr. A.
Strange, H. G. L.
Steele, R. M.
Stewart, A. M.
Stokes-Waller, W. P. E.
Taylor, H.
Taylor, O. C.
Taylor, R.
Thomas, G. M.
Tomlinson, C. E.
Tommerup, E. C.
Urwick, E. J.
Van der Byl, V. St. J.
Waeger, F.
Walding, T. W
Walker, J. G.
Walker, S. C.
Wallett, N.
Wardman, F. N.
Waring, J. J.
Watson, W.
Weatherill, W.
White, S. L. T.
Whittam, T.
Williams, W. W.
Wilson, Prof. E. E.
Wilson, H. A.
Wiseman, F. D.
Wiseman, H. V.
Wood, A.
Wragg, H. C.
Zassenhaus, H.

The following have compounded for life membership :—

Alivia, Sig. A.
Birley, Miss B. F.
Custis, V.
Haight, F. A.
Hamber, J. P.
Harris, J. A.
Haun, Dr. O.
Home, J. B.
Jack, D. T.
Jaffe, Prof. W.
Jaffee, Mark.
James, H.
Jerath, H. L.
Kelly, T. H.
Leland, S. E.
Marschak, Dr. J.
Patterson, J. H.
Rosenberg, L.
Shannon, H. A.
Souter, R. W.
Tong, A. Koon-Yuen.
Townsend, R. R.
Whittlesey, Prof. C. R.

The following have been admitted to Library membership :—

Bai Jerbai Wadia Library, Fergusson College, Poona.
Board of Trade, London.
Central Public Library, Wellington, New Zealand.
Constantine Technical College, Middlesbrough.
Co-operative Societies Department, Penang.
Department of State, Washington.

Hamburgisches Welt-Wirtscrafts-Archiv.
Helbert, Wagg & Co., Ltd.
International Labour Office, Geneva.
Institute of Social Research, Peiping.
Linen Hall Library, Belfast.
Midland Agricultural College, Loughborough.
National Bank of Czechoslovakia, Prague.
National City Financial Library, New York.
National Research Institute of China, Nanking.
Regio Istituto Superiore di Scienze Economiche e Commerciali, Florence.
Royal Library, Copenhagen.
Trade-Ways Group, New York.
University College, Nottingham.
Verkehrs- und Handels-Aktiengesellschaft, Berlin.
Volkswirtschaftliches Seminar, Universitat, Freiburg.

Professor H. A. Innis, of the University of Toronto, has been appointed as the Society's Correspondent for Canada, in place of Mr. C. R. Fay, who has now returned to Cambridge as Reader in Economic History.

This year the British Association will meet at York from August 31 to September 7. Section F (Economic Science and Statistics) is to be presided over by Professor R. B. Forrester, who has selected " Britain's Access to Overseas Markets " as the subject of his address. A varied programme has been arranged, including papers by Dr. Benham on " Agriculture and Economic Change " ; Professor Bellerby on " The Overthrow of the Laws of Distribution " ; Mr. C. R. Fay on " Reconciliation of Producer and Consumer within the Co-operative Movement " ; Professor Robbins on " The Gold Standard and the Great Depression " ; Professor Allen on " The Economic Position of Japan " ; Dr. Roll on " The Effects of the World Depression on the Banking Systems of Central Europe " ; and Mr. Morgan Rees on " Some Assumptions underlying Equilibrium between Production and Consumption." In addition, there is to be a symposium on the " Location of Industries," in which Mr. Jewkes, Professor Marquand and Mr. Brindley Thomas will participate.

Further particulars of the arrangements can be obtained from the Recorder of the Section, Dr. K. G. Fenelon, 41 Moorland Road. Didsbury, Manchester.

RECENT PERIODICALS AND NEW BOOKS

Economica.

FEBRUARY, 1932. *The Concept of the State.* H. KANTOROWICZ. *Reflections on the Pure Theory of Money of J. M. Keynes.* F. A. VON HAYEK. *Trends in Business Administration.* A. PLANT. *Marginal Productivity and the Principle of Variation.* J. R. HICKS.

Journal of the Royal Statistical Society.

Vol. XCV. Part I. *Business Forecasting: a Quantitative Investigation of the Influence of Money on Trade Development.* R. G. GLENDAY. *The Balance of Trade: a Discussion.* E. C. SNOW and others.

International Labour Review.

JANUARY, 1932. *International Measures to create Employment.* W. WOYTINSKY. *Labour Conditions in French Agriculture.* M. AUGE-LARIBÉ. *Social Economic Planning.* G. A. JOHNSTON.

FEBRUARY, 1932. *A New Policy for Agricultural Labour.* J. F. DUNCAN. *The Effects of Rationalisation on Employment.* R. TREMELLONI. *The Seasonal Emigration of Polish Agricultural Workers to Germany.* G. S. RABINOVITCH.

MARCH, 1932. *Prison Labour* (Official). *The Seasonal Emigration of Polish Workers to Germany* (contd.). G. S. RABINOVITCH. *The Housing of Agricultural Wage-paid Workers.*

APRIL, 1932. *Recent Emergency Legislation in Germany, with Special Reference to Wages and Hours of Work.* F. SITZLER. *The Employment of Women since the War.* A. VALLENTIN. *Prison Labour, II.*

Quarterly Journal of Economics.

FEBRUARY 1932. *Import, Export, and Domestic Prices in the United States,* 1926–30. T. J. KREPS. *The Standard of Value.* A. E. MUNROE. *Mileage Rates and the Interstate Commerce Commission.* S. DAGGETT. *Economics and Sociology: Marshall in Relation to the Thought of his Time.* T. PARSONS. *The Yellow Dog Contract.* J. I. SEIDMAN.

Journal of Political Economy.

FEBRUARY, 1932. *Some Problems in the Theory of National Income.* M. A. COPELAND. *Farm Relief, Agricultural Prices, and Tariffs.* L. B. ZAPOLEON. *The History of an English Village.* J. U. NEF. *Distrust of Bank Deposits as measured by Federal Reserve Note Issue.* H. L. REED.

American Economic Review.

MARCH, 1932. *Pushing back the Frontiers.* E. L. BOGART. *Appraisal of Institutional Economics.* P. T. HOMAN. *Webb-Pomerene Law.* L. T. FOURNIER. *Collateral at Federal Reserve Banks.* R. B. WESTERFIELD. *Central Gold Reserves,* 1926–31. W. R. GARDNER. *Economics of Brokers' Loans.* W. J. EITEMAN.

Journal of Economic and Business History.

FEBRUARY, 1932. *Bank of America.* H. B. PRESTON. *England's Return to the Gold Standard in 1925.* L. SMITH. *Material for a History of American Textile Machinery.* J. T. LINCOLN. *The Wedgwoods: Ten Generations of Potters.* R. M. HOWER. *Economic Relations between Byzantium and Old Russia.* A. VASILIEV. *Price Fluctuations in Ancient Babylonia.* H. F. LUTZ.

MAY, 1932. *The Rise of Big Business.* N. S. B. GRAS. *The French Coffee Syndicate* 1887–9. M. A. ABRAMS. *E. W. Clark and Co.,* 1837–57. H. M. LARSON. *Early Business Methods in the Texas Cattle Industry.* T. J. CAULEY. *Government Factory System among the Indians.* E. B. WESLEY. *Trade and Industry in Colonial Maryland.* P. H. GIDDENS. *Treatise on Book-keeping under the Fuggers.* M. L. HARTSOUGH. *Babylonian Partnership.* H. F. LUTZ. *Statistics on Franco-American Trade* 1778–1806. E. BURON.

Review of Economic Statistics.

NOVEMBER, 1931. *Foreign Trade and the Business Cycle.* C. J. BULLOCK and H. L. MICOLEAU.

FEBRUARY, 1932. *The Copper Industry in* 1931. F. E. RICHTER. *Hoarding and the Expansion of Currency.* J. B. HUBBARD. *A Review of Recent Bank Failures.* E. S. COYLE. *The Sensitive Price Index.* S. J. DENNIS. *Review of the Year 1931.*

Annals of the American Academy of Political and Social Science.

JANUARY, 1932. *Power and the Public.* The papers presented to a Conference to discuss the problems presented by the relations between public utilities and the general public. These papers deal with the Holding Company, Rates, Regulation, Valuation, Public and Private Ownership.

MARCH, 1932. *The Modern American Family.* The papers deal with the historical aspects of family life; some transitional questions, such as birth control, intra-family relationships, and women's employment; and with efforts at family stabilisation.

Wheat Studies.

(Food Research Institute, Stanford.)

FEBRUARY, 1932. *Economic Nationalism in Europe as applied to Wheat.*

MARCH AND APRIL. *Russia as a Producer and Exporter of Wheat.* Soviet Russia seems unlikely, in the next few years at least, to recover the pre-war position of the Russian Empire as an exporter of wheat. Russia's domestic requirements are increasing with the growth of population and the limited expansion of rye. The large wheat exports of 1930–31 were made possible by exceptionally high yields per acre and rationing of domestic consumption.

MAY. *Survey of Wheat Situation, Dec.* 1931 *to March* 1932. With heavy feed use in North America, wheat consumption in 1931–32 may still equal or exceed the high level of 1930–31 outside Russia and China. China's imports are likely to set a new high record. World carry over is likely to be reduced by 50 to 100 million bushels. Most of the surplus will be in the United States.

Kyoto University Economic Review.

DECEMBER, 1931. *Merits and Demerits of the Stoppage-at-source System in the Income Tax on Corporate Dividends.* M. KAMBE. *On the Differential Birth-rate by Classes.* Y. TAKATA. *Inter-relation between the Wealth and the Density of Population in Japan.* S. SHIOMI. *Correlations between Spot and Future Quotations of Japanese Rice.* K. TANIGUCHI.

Index (Stockholm).

SEPTEMBER, 1931. *The World's Staples. VII. Rayon.* G. MORTARA.

OCTOBER, 1931. *The World's Staples. VIII. Copper.* F. E. RICHTER.

NOVEMBER, 1931. *The World's Staples. IX. Rubber.* G. A. P. WEIJER.

DECEMBER, 1931. *The Wheat Situation.* G. J. S. BROOMHALL.

JANUARY, 1932. *The World's Staples. X. Petroleum.* W. MAUTNER.

FEBRUARY, 1932. *The World's Commercial Banks,* 1913–29. S. BRISMAN.

MARCH, 1932. *The World's Staples. XI. Sawn Woodgoods.* T. STREYFFERT.

APRIL, 1932. *The World's Staples. XII. Coffee.* W. H. UKERS.

Ceylon Economic Journal.

DECEMBER, 1931. *The Cycle of Booms and Depressions.* B. B. DAS GUPTA. A summary of the main historical and existing theories.

Indian Journal of Economics.

JANUARY, 1932. *Labour Turnover and Productive Costs.* B. R. S. RAO. *Trade Booms and Depressions.* S. K. MURANJAN. *International Control of Price Levels.* V. L. D. SOUZA. *Variance of Imperial Bank Advances.* H. SINHA. *Central Bank Constitutions.* J. C. SINHA.

Studies (Dublin).

MARCH, 1932. *Richard Cantillon of Ballyheigue.* J. C. NAGLE. *The Economic Theory of Loan Interest.* E. J. COYNE. A discussion of the Canonical View, in relation to the views of Mr. Somerville, and a Review of Literature on this matter.

Revue d'Économie Politique.

NOVEMBER, 1931. *Les caractères nouveaux du cycle actuel.* M. ANSIAUX. *L'assurance chômage est-elle la cause du chômage permanent.* R. PICARD. *Origine utopique et metaphorique de la théorie du "laissez-faire" et de l'équilibre naturel.* S. BAUER. *Les investment trusts aux États-Unis et la crise de* 1929–30. P. SCHWOB.

JANUARY, 1932. *Méthodes nouvelles pour mesurer l'utilité marginale.* J. MORET et R. FRISCH. *Les manifestations récentes de la doctrine sociale du Saint-Siège.* G. LEDUC. *Essai sur les conséquences économiques des emigrations.* J. MORINI-COMBY. *Le chômage technologique.* G. KHERIAN.

Journal des Économistes.

JANUARY, 1932. *Hier et demain.* E. PAYEN. *Le marché des changes depuis la baisse de la livre sterling.* P. CAUBOUE. *L'Allemagne économique.* R. J. PIERRE.

FEBRUARY, 1932. *Les difficultés présentes et les absurdités préconisées.* E. PAYEN. *La loi des débouchés.* A. LIESSE. *L'industrie minière.* R. J. PIERRE.

APRIL, 1932. *Le commerce extérieur des principaux pays en* 1931. R. J. PIERRE. *Le Budget de* 1932. E. PAYEN.

Revue de l'Institut de Sociologie.

OCTOBER, 1931. *L'étranger dans l'histoire économique de la Belgique.* B. S. CHLEPNER. *Budgets ouvriers en* 1891 *et en* 1929. M. GOTTSCHALK.

Schmollers Jahrbuch.

FEBRUARY, 1932. *Errinerungen an Lujo Brentano.* W. LOTZ. *Korporative Wirtschaft.* J. DOBRETSBERGER. *System der Handelsfunktionen.* F. REDLICH. *Zahl und Inhalt bei Wahl, Beschluss, und Volksabstimmung.* A. TECKLENBURG. *Der Methodenstreit in der Soziologie.* C. ENGEL-REIMERS. *Die Getreidehandelspolitik und Kriegsmagazinverwaltung Friedrichs des Grossen und seiner beiden Nachfolger.* A. SKALWEIT.

Zeitschrift für Nationalökonomie.

FEBRUARY, 1932. *Die Kurve des Geldnutzens und die Theorie des Sparens.* U. RICCI. *Grundlagen einer reinen Kostentheorie* (Teil I). H. VON STACKELBERG. *Zur Diskussion über die Kosten- und Ertragstheorie.* R. LIEFMANN. *Das Grundproblem einer Theorie der Wirtschaftsänderungen.* H. BAYER.

Zeitschrift für die gesamte Staatswissenschaft.

JANUARY, 1932. *Wandlungen in der Problemstellung der theoretischen Nationalökonomie.* E. EGNER. *Die britische Bodenwertsteuer.* F. HEYER.

MARCH, 1932. *Rentenprinzip oder Rentenstellung. Grundsätzliches zum Streit über die Singularität der Grundrente.* O. VON ZWIEDINECK-SÜDENHORST. *Verwaltungsbehörde und Unternehmung. Organisation und Personal.* W. NORDEN.

Vierteljahrshefte zur Konjunkturforschung.

SONDERHEFT 25. *Zur Frage der internationalen Arbeitsteilung.* A. RÜHL.

Archiv für Sozialwissenschaft und Sozialpolitik.

MARCH, 1932. *Lähmung der Weltwirtschaft.* E. LEDERER. *Revierbildung und provinziale Streuung der Industrie.* G. BRIEFS. *Max Weber und Karl Marx.* K. LÖWITH.

APRIL, 1932. *Substanzverluste.* J. MARSCHAK. *Der Funktionswandel des Arbeitsrechts.* O. KAHN-FREUD. *Max Weber und Karl Marx.* K. LÖWITH.

Jahrbucher für Nationalökonomie und Statistik.

FEBRUARY, 1932. *Ein Quantenproblem der Sozialwirtschaft. Die Unzulänglichkeit der Ratio.* K. E. L. KELLER.

MARCH, 1932. *Der Erkenntnisweit der Kaufkraftparitätentheorie.* S. WENDT. *Die vermeintlichen Kreditkreierungen und die Konjunkturschwankungen.* M. BOUNIATIAN.

APRIL, 1932. *Werturteil und Produktivitätsbegriff in der Wirtschaftswissenschaft.* W. WEDDIGEN. *Fichte und der Sozialismus.* J. HASHAGEN.

Weltwirtschaftliches Archiv.

APRIL, 1932. *Staat und Wirtschaft.* C. ECKERT. A classification of mutual relations of industry and politics, with a discussion of the changes in this relation in Germany, especially since the war. *Monopolistische Preispolitik in der Depression.* A. MAHR. Rigidity of prices as a consequence of monopolist enterprise intensifies depression. On the other hand, the requirements of a working price system cannot be directed against the individual producer. Special conditions of profit under incomplete monopoly frequently cause rigidity of the price system. Reduction of prices must be general, and this implies the simultaneous reduction of other elements of cost. Elasticity of individual prices, and stability of the price level, are needs of the conjuncture policy, which are not mutually exclusive but supplementary. *Zur Theorie der Konjunkturschwankungen.* F. BROCK. The final cause of boom lies in the endeavour of the producer to expand. The disturbance of equilibrium caused thereby between the "production" and "consumption" industries causes a relative scarcity of consumers' goods, and gives an extra profit to the producers. The stoppage of the boom depends mainly on the increase of wares, and the simultaneous scarcity of labour applicable to the "production" industries. The whole wave has two distinct phases: recovery from depression to equilibrium, and the special boom period. *Strukturelle Voraussetzungen Wirksamer Industriezölle.* H. GROSS. The structural conditions of production of the protected industries of a country are reduced to a general formula. Comparative study of national conditions is further applied to determine the protective policy of countries with export industries. *Die Exportpolitik und das Problem der Exportfähigkeit der USSR.* By PAUL CZECHOWICZ. The present export policy of the U.S.S.R. is to increase exports by all possible means. The losses resulting from the sale of exports below their cost price are, to a large extent, only apparent. The U.S.S.R. home market is insufficiently supplied in the goods that are exported. The study is based on official documents and contains detailed statistical data concerning the prices and production of export goods and the consumption of such goods in the U.S.S.R. *Das Problem des wirtschaftlichen regionalen Zusammenschlusses der innereuropäischen Staatenwelt und seine Bedeutung für Deutschland.* B. ISCHBOLDIN. A discussion of the conditions under which the economic crisis can be mitigated by regional conventions, involving preferential tariffs. A number of plans, such as "Agrarblock," or the "Mittel-Europa" projects, are rejected in favour of a closer relation between an extended "Great Germany" and a Slav "small entente." *Die Industrialisierung der Britischen Dominions und die Rückwirkung auf ihre weltwirtschaftlichen Stellung.* F. BORCK.

De Economist.

DECEMBER, 1931. *De Indische Begrooting voor* 1932. J. C. KIELSTRA. The writer discusses the financial position of the Dutch Indies in recent years and the budgetary deficiencies. The new taxes in the most recent budget are criticised. The general tenor of the article is that Dutch colonial policy (as exemplified, *e.g.*, in education), instead of following the natural development of society, is anxious to impel development along predetermined lines towards an end which it considers ought to be reached. The next years must be years of economy and reflection. There is need of a policy which is conservative in the good sense, guided by reality and not by desires and aspirations with regard to the future, and based on historical development rather than doctrinaire ideas. *Enkele beschouwingen over de toepassing van den goudwisselstandaard.* G. BROUWERS. A discussion of objections raised against the gold standard, especially the criticisms of Dr. Mlynarski in the documents of the Gold Delegation of the League of Nations.

JANUARY, 1932. *Onafgebroken voortzetting of voorloopige opschorting van de gedeeltelijke droogmaking der Zuiderzee?* J. BS. WESTERDIJK. Should the work of reclamation of the Zuider Zee be pushed on or provisionally suspended? The writer gives a history of early proposals for the drainage of the Zuider Zee, and (in greater detail) an account of events since 1918 and of the numerous Commissions which have dealt with various aspects of the question. A favourable conclusion is reached on the quality of the soil in the recovered areas, despite their present appearance. On the financial side, particulars are given of the estimates made at various times and of the actual expenditure, and it is shown that these estimates have been enormously exceeded. The very great losses which the writer anticipates will be increased if the Government, in view of the low level of agricultural prices, has itself to assume the responsibility for the management of the recovered areas and is unable to sell or let these lands. *Vrijhandel en economisch herstel.* H. W. C. BORDEWIJK. A statement, on more or less orthodox lines, of the case for Free Trade. Nations have need of each other, and the recent development of Nationalism is one of the most baneful inheritances of the war. The policy of protection, in which it is manifested, is one of the greatest causes of present-day depression. If an industry is in difficulties, subsidies are preferable to import duties. Recent events in Holland are discussed. The universal striving for national economic independence involves a danger to future peace. *Beschouwingen over onzen buitenlandschen handel in de beide na-oorlogs-depressies.* W. L. VALK. A study of the figures for Dutch foreign trade with reference to the crisis of 1920 and the present-day depression.

Giornale degli Economisti.

DECEMBER, 1931. F. INSOLERA. *Nuovi fondamenti alla costruzione delle tavole selezionate di mortalità.* B. FOÀ. *Recenti teorie monetarie del ciclo.* A survey with a certain amount of critical commentary of some recent contributions to the theory of the trade cycle, regarded mainly from the monetary standpoint. The authors discussed are Cassel, Hawtrey, Robertson, and Keynes.

Di alcuni effetti economici delle "imposte sugli scambi." PROFESSOR E. D'ALBERGO continues his analysis of the turnover tax. After a somewhat detailed treatment of the incidence and effects of the tax on different industries and branches of activity, he concludes that "the tax disturbs the equilibrium of prices existing before its introduction, in a larger measure than any other tax on commodities, and may impede in a marked degree productive activity (both industrial and commercial) the formation of income and the accumulation of saving."

JANUARY, 1932. M. FANNO. *Camillo Supino. Causalità e casualità nella filosofia naturale.* PROFESSOR G. POLVANI stresses the extent to which elements of chance and of indeterminateness appear in the midst of all the apparent order and causality of natural phenomena and finishes by citing the following passage from the *Divine Istituzioni* of Lattanzio: *Hominis sapientia est ut neque te omnia scire putes, quod Dei est; neque omnia nescire, quod pecudis. Est enim aliquod medium, quod sit hominis. Id est scientia cum ignoratione coniuncta et temperata!* L. ROSSI. *Del concetto di elasticità in economia.* A discussion of some ambiguities in the interpretation by certain economists of the term elasticity, with special reference to the use of the terms "rigidity" and "inelasticity" (*anelasticità*). L. GANGEMI. *"Homo oeconomicus" e Stato corporativo. Chiarimento necessario.* A reply to the article by Professor A. Contento in *Giornale* for July 1931.

FEBRUARY, 1932. *Nuovi problemi della teoria del commercio internazionale.* PROFESSOR G. DEL VECCHIO in a brief note suggests that theoretical problems of international trade have been treated hitherto too much from a statical point of view, and that a dynamical approach might have fruitful results. B. FOÀ. *Sul metodo della scienza economica.* A. BREGLIA. *Variazioni della richiesta d'una merce prodotta in concorrenza e relative variazioni del prezzo.* E. D'ALBERGO. *I limiti di convenienza nei prestiti esteri.* C. PAGNI. *Banca e Stato.*

La Riforma Sociale.

JANUARY–FEBRUARY, 1932. *Histoire monétaire romancée.* PROFESSOR A. CABIATI accuses Dr. Einzig of having in his recent book, *Behind the Scenes of International Finance*, produced a work which bears to the actual economic events of the last few years much the same relation as the novels of the elder Dumas bore to the true history of Louis XIII. Basing himself partly on recent contributions of Mr. Balogh in the ECONOMIC JOURNAL and the *Banker*, Professor Cabiati subjects Dr. Einzig's book to a very vigorous destructive criticism. R. LEWIS. *Sulle rimunerazioni percepite dagli amministratori di società anonime.* An analysis of the balance sheets of forty important Italian joint-stock companies shows the magnitude of the remuneration paid to the directors and members of the administration of these companies in relation to other items of expenditure. It is found that this remuneration often exceeds the whole amount annually set aside to reserve. F. VITO. *Alcune osservazioni intorno al progetto di legge sui cartelli in Ungheria.* A critical account of the provisions of a Bill introduced into the Hungarian Parliament in July 1930 for subjecting cartels to a measure of State control, somewhat on German lines. G. CARANO-DONVITO. *La Puglia nel Risorgimento.*

NEW BOOKS

British.

ADAMS (L. P.). Agricultural Depression and Farm Relief in England, 1813-1852. P. S. King. 7¼″. Pp. 191. 7*s*. 6*d*.

BARLEY (L. J.). The Riddle of Rationalisation. Allen and Unwin. 6″. Pp. 128. 4*s*. 6*d*.

BAROU (N.). Co-operative Banking. P. S. King. 8½″. Pp. 350. 15*s*.

BAXENDALE (A. S.). The Doom of Gold: when and why gold will be demonetised. Cecil Palmer. 7½″. Pp. 23. 1*s*.

BENN (E. J. P.). Honest Doubt: being a collection of papers on the price of modern politics. Ernest Benn. 8½″. Pp. 248. 6*s*.

CAMPBELL (C. D.). British Railways in Boom and Depression: an essay in trade fluctuations and their effects, 1878-1930. P. S. King. 8½″. Pp. 125. 6*s*.

CASSEL (G.). The Theory of Social Economy. Translated by S. L. Barron. New and revised edition. Ernest Benn. 8½″. 2 vols. 42*s*.

CHISHOLM (G. G.). Handbook of Commercial Geography. 12th ed., revised and edited by L. Dudley Stamp. Longmans, Green. 8½″. Pp. 825. 25*s*.

COHEN (P.). The British System of Social Insurance. Philip Allan. 8¾″. Pp. 278. 12*s*. 6*d*.

COLES (K. A.). Emergency Finance for Small Business. Crosby Lockwood & Son. 7¼″. Pp. 71. 2*s*. 6*d*.

DARLING (J. F.). Monetary Leadership, with a Plan for an Empire Currency. Ernest Benn. 8½″. Pp. 70. 2*s*. 6*d*.

DOBB (M.). On Marxism To-day. Hogarth Press. 7¼″. Pp. 48. 1*s*. 6*d*.

DOUGLAS (D. C.) (Ed.). Feudal Documents from the Abbey of Bury St. Edmunds. Humphrey Milford (for the British Academy). 9¾″. Pp. clxxi + 247. 30*s*.

EINZIG (P.). The World Economic Crisis, 1929-1931. 2nd ed. Macmillan. 8½″. Pp. 173. 7*s*. 6*d*.

FENELON (K. G.). Railway Economics. Methuen. 7½″. Pp. 228. 5*s*.

FORDHAM (M.). Britain's Trade and Agriculture; their recent evolution and future development. Allen and Unwin. 7¾″. Pp. 224. 7*s*. 6*d*.

GLASGOW (G.). The Scottish Investment Trust Companies. Eyre and Spottiswoode. 10¾″. Pp. 204. 50*s*.

GREGORY (T. E.). The Silver Situation. Manchester University Press. Pp. 48. 1*s*. 6*d*.

GREIDANUS (T.). The Value of Money. P. S. King. 8½″. Pp. 364. 15*s*.

GREIG (J. Y. T.) (Ed.). The Letters of David Hume. Oxford, Clarendon Press. 8¾″. 2 vols. 50*s*.

HARRIS (H. W.). The Future of Europe. Sidgwick and Jackson. 7¼". Pp. 130. 3s. 6d.

HUTTON (D. G.). Nations and the Economic Crisis. Sidgwick and Jackson. 7¼". Pp. 168. 3s. 6d.

JACK (D. T.). Currency and Banking. Pitman. 7½". Pp. 196. 5s.

JAMES (F. C.). England To-day: a survey of her economic situation. P. S. King. 7¼". Pp. 238. 6s.

JATHAR (G. B.) and BERI (S. G.). Indian Economics. Oxford University Press. 9¼". 2 vols., Vol. I, 3rd ed. Vol. II, 2nd ed. 9s. 6

KALE (V. K.). Problems of World Economy. Madras University. 9¾". Pp. 163.

KALMANE. India and Ceylon, a Federation. P. S. King. 7¼". Pp. 128. 4s.

KNOWLES (L. C. A.). Economic Development in the Nineteenth Century; France, Germany, Russia, and the United States. Routledge. 8¾". Pp. 368. 12s. 6d.

LAIRD (D. A.). Psychology and Profits. Williams and Norgate. 7". Pp. 175. 6s.

LEACOCK (S.). Back to Prosperity: the great opportunities of the Empire Conference. Constable. 7½". Pp. 102. 3s. 6d.

London School of Economics. Series of reprints of Scarce Tracts, No. 10. Mathematical Psychics. By F. Y. Edgeworth. 8½". Pp. 150. 5s.

No. 11. Grundzüge der Theorie des wirtschaftlichen Güterwerts: von E. v. Böhm-Bawerk. 8½". Pp. 150. 5s.

MACKENZIE (K.). The Banking Systems of Great Britain, France, Germany, and the United States of America. Macmillan. 7¼". Pp. 239. 3s. 6d.

PEDDIE (J. T.). The Crisis of the £. Macmillan. 8½". Pp. 138. 7s. 6d.

People's Year Book: being the 15th annual of the English and Scottish Co-operative Wholesale Societies. Manchester, Co-operative Wholesale Society. 8¼". Pp. 360. 2s.

SCHOLES (A. G.). Education for Empire Settlement: a study of juvenile migration. Longmans, Green. 8½". Pp. 250. 7s. 6d.

SCHUMANN (C. G. W.). The World Depression, South Africa, and the Gold Standard. London, Walker Bros. 8½". Pp. 153. 7s. 6d.

SIRKIN (D.). A Plain Guide to the Financial Situation. P. S. King. 7¼". Pp. 56. 2s. 6d.

Social and Economic Aspects of the Drink Problem. V. Gollancz. 8½". Pp. 180. 5s.

STAMP (SIR J.). Taxation during the War. Humphrey Milford. 9¾". Pp. 252. 10s.

TOCHER (J. F.). What is "Probable error"? Institute of Chemistry. 8½". Pp. 63.

VAKIL (C. N.), BOSE (S. C.) and DEOLALKAR (P. V.). Growth of Trade and Industry in Modern India: an introductory survey. Longmans, Green. 8¼". Pp. 398. 13s. 6d.

WELLS (H. G.). The Work, Wealth, and Happiness of Mankind. Heinemann. $8\frac{1}{2}''$. Pp. 850. 10*s*. 6*d*.

WILSON (R.). Capital Imports and the Terms of Trade, examined in the light of sixty years of Australian borrowings. Melbourne and London, Macmillan. $8\frac{1}{2}''$. Pp. 111. 6*s*. 6*d*.

YAKHONTOFF (V. A.). Russia and the Soviet Union in the Far East. Allen and Unwin. $8\frac{1}{2}''$. Pp. xxii + 454. 18*s*.

American.

BOWMAN (I.). The Pioneer Fringe. New York, American Geographical Society. 10″. Pp. 361.

CLARK (F. E.) and WELD (L. D. H.). Marketing Agricultural Products in the United States. New York and London, Macmillan. $8\frac{1}{2}''$. Pp. 672.

DIX (L.). The Economic Basis for the Teacher's Wage. New York, Lincoln School of Teachers. 9″. Pp. 114. $1.75.

Encyclopaedia of the Social Sciences. Vol. VI. Expatriation-Gosplan. New York and London, Macmillan. $10\frac{3}{4}''$. Pp. xxv + 713. 37*s*. 6*d*.

HANSEN (A. H.). Economic Stabilisation in an Unbalanced World. New York, Harcourt Brace. $8\frac{1}{2}''$. Pp. 384.

SMITH (N. L.). The Fair Rate of Return in Public Utility Regulation. Boston and New York, Houghton Mifflin Co. $7\frac{3}{4}''$. Pp. x + 334. $3.

French.

Aperçus européens. Conférences organisées par la Société des Anciens Élèves et Élèves de l'École Libre des Sciences Politiques. Paris, Félix Alcan. $7\frac{1}{2}''$. Pp. 149. 12 *fr*.

ASCH (S.). Monnaie et finance. Le rôle de la Banque des Règlements Internationaux après l'étalon or. Paris, Félix Alcan. $7\frac{1}{2}''$. Pp. 134. 12 *fr*.

BORDEWYK (H. W. C.). Les finances aux Pays-Bas à la fin de la guerre (1918–1922). Paris, Aux Éditions du Monde Nouveau. 10″. Pp. 151.

GRAZIADEI (A.). La rente et la propriété de la terre (critiques aux théories de Marx). Paris, Marcel Rivière. 9″. Pp. 147. 20 *fr*.

HOFFHERR (R.). L'économie marocaine. Paris. Recueil Sirey. 10″. Pp. 340.

LESCURE (J.). Des crises générales et periodiques de surproduction. 4th ed. Tome I. Le phénomène. Tome II. Causes et remèdes. Paris, Les Éditions Domat-Montchrestien. 9″. 2 vols. 65 *fr*.

SIMIAND (F.). Le salaire l'évolution sociale, et la monnaie. Essai de théorie expérimentale du salaire. Tomes II et III. Paris, Félix Alcan. 10″. 2 vols. 120 *fr*.

TEILHAC (E.). Les fondements nouveaux de l'économie. Rationalisation et monnaie dirigée. Paris, Marcel Rivière. $8\frac{3}{4}''$. Pp. 207. 25 *fr*.

The Pound and the Dollar; or, Gold, Debts, and Taxes. Paris. The Vendôme Press. $8\frac{1}{2}''$. Pp. 132.

German.

Bente (H.). Kapitalabwertung und Wirtschaftskrise. Tübingen: J. C. B. Mohr. 9¼". Pp. 24. ·80 *m.*

Block (A.). Bausparen in England, Amerika und Deutschland. Berlin: Bauwelt-Verlag. 9". Pp. 495.

Dobretsberger (J.). Freie oder gebundene Wirtschaft? Munich und Leipzig: Duncker und Humblott. 9½". Pp. 165. 7 *m.*

Eichborn (K. von). Das Rätsel des Geldes. Ein Beitrag zur Deutung der Weltkrise. Munich und Leipzig: Duncker und Humblot. 9". Pp. 23. 1.50 *m.*

Frisch (R.). New Methods of Measuring Marginal Utility. Tübingen: J. C. B. Mohr. 9½". Pp. 142.

Gumperz (J.). Die Agrarkrise in den Vereinigten Staaten. Leipzig: Hans Buske. 9¼". Pp. 182. 11 *m.*

Kerschagl (R.). Devisenbewirtschaftung. Ein Abriss ihrer ökonomischen Probleme. Berlin: Carl Heymanns Verlag. 9". Pp. 64.

Kulischer (A. und E.). Kriegs- und wanderzüge Weltgeschichte als Völkerbewegung. Berlin und Leipzig: Walter de Gruyter. 10". Pp. 230.

Lederer (E.). Planwirtschaft. Tübingen: J. C. B. Mohr. 9". Pp. 48. 1.20 *m.*

Ludewig (W.). Die Anbauzonen des Weizens in den Vereinigten Staaten und die Methodik ihrer kartenmässigen Darstellung. Berlin: Paul Parey. 10". Pp. 103. 9.40 *m.*

Manes (A.). Versicherungswesen. System der Versicherungswirtschaft. 5 Aufl. Band III. Personenversicherung. Leipzig und Berlin: Teubner. 9". 22 *m.*

Mombert (P.). Bevölkerungsentwicklung und Wirtschaftsgestaltung. Leipzig: Hans Buske. 9¼". Pp. 77. 4.30 *m.*

Muhs (K.). Die Entthronung des Goldes. Betrachtungen zur internationalen Krisis der Goldwährung. Berlin: Junker und Dünnhaupt. 9". Pp. 53.

Reichenau (C. von). Die Kapitalfunktion des Kredits. Ein methodischer Versuch. Jena: Gustav Fischer. 9½". Pp. 180. 9 *m.*

Schick (A.). Das Sowjetbankwesen und die Rolle der Banken in der Sowjetwirtschaft. Berlin: Ost-Europa-Verlag. 9". Pp. 100. 4.50 *m.*

Woytinsky (W.). Internationale Hebung der Preise als Ausweg aus der Krise. Leipzig: Hans Buske. 9¼". Pp. 163. 12.50 *m.*

Italian.

Corbino (E.). Annali della economia Italiana, Vol. I–II. Citta di Castello.

de Stefani (A.). La deflazione finanziaria: 20 *lire.*

Dragoni (C.). Economic agrario. Milan: Hoepli. Pp. 794. 60 *lire.*

MENGARINI (P.). I caratteri economici della speculazione. Rome: Libreria Int. "Modernissima. 8½". Pp. 115. 12.50 *lire.*

MICHELS (R.). Introduzione alla storia delle dottrine economiche politiche, con un saggio sulla economia classica italiana e la sua influenza nella scienza economica. Bologna: Zanichelli. Pp. 310. 15 *lire.*

MORANDI (R.). Storia della grande industria in Italia. Bari: Laterza & Figli. 8". Pp. 300. 22 *lire.*

PUGLIESE (M.). La politica finanziaria ed edilizia del comune e del Land di Vienna. Pavia: Treves-Treccani-Tumminelli. 9½". Pp. 84.

SPIRITO (U.). I fondamenti della economia corporativa. Milan: Treves-Treccani-Tumminelli. 8½". Pp. 281. 15 *lire.*

VANONI (E.). Natura ed interpretazione delle leggi tributarie. Padova: Cedam. 10". Pp. 302. 35 *lire.*

VERRI (P.). Bilanci del commercio dello Stato di Milano. Turin: La Riforma Sociale. 10½". Pp. 119. 16 *lire.*

Official.

LEAGUE OF NATIONS.

Memorandum on commercial banks, 1913–29. Geneva. (London: Allen and Unwin.) 10¾". Pp. 429. 12*s.*

The social aspects of Rationalisation. (International Labour Office. London: P. S. King.) Pp. 381. 8*s.*

H.M.S.O.

Final report on the census of production of the United Kingdom (1924). Mines and quarries, the timber trades, manufactures of clay, stone, etc., and the building and contracting trades, public utility services and Government departments: and an appendix containing general statistical tables. 9¾". Pp. 473. 7*s.*

TURKEY. OFFICE CENTRAL DE STATISTIQUE.

Annuaire statistique, 1930–31. Ankara. 11". Pp. 433.

THE ECONOMIC JOURNAL

SEPTEMBER, 1932

THE ANNUAL MEETING OF THE ROYAL ECONOMIC SOCIETY: THE PRESIDENT'S ADDRESS

The forty-second annual meeting of the Royal Economic Society was held at the London School of Economics on the 26th of May last: the President (Professor H. S. Foxwell) being in the chair. A large company of members was present.

The accounts for 1932 and the Auditor's report were received and approved; and the Officers and Council of the Society for the current year, as nominated by the outgoing Council, were declared elected without opposition. Professor Foxwell, the retiring President, was added to the list of Vice-Presidents, and Professor Edwin Cannan was elected his successor.

Before the transaction of the above business, the President-elect (reviving the practice of a Presidential Address on the occasion of the Society's Annual Meeting, after its intermission for a considerable number of years) read the following address on *The Demand for Labour*.

THE DEMAND FOR LABOUR

If everything were as it should be, the demand for labour would be too elementary a subject for me to take in addressing the Fellows of the Royal Economic Society in the forty-second year of its existence. But it is a melancholy fact that the forty-one completed volumes of the Society's JOURNAL have not succeeded in producing any considerable improvement in the mind of the public in connection with this matter. Within the last few years the governments of two great countries have actually congratulated themselves on the fact that the demand for labour had increased along with the increase of population, as if that were something unusual; a British Cabinet Minister supposed to be in charge of Employment has entreated pensioners and owners of property (other than his wealthy colleagues) to

get out of their jobs to make room for the unemployed; and eminent statisticians have found great comfort in the declining growth of population, being apparently under the impression that the smaller the population is, the less likely is it to come up to the amount of employment.

The whole trouble arises from the failure of the public to realise that labour as a whole produces all sorts of things, and that this prevents human appetite from being satiated at an early stage by an increase in the whole produce of labour in the same way as it is satiated by an increase of any particular product.

In spite of the jeers of those who find that Robinson Crusoe's moccasins pinch their feet, let us proceed from the simple to the more complicated by asking ourselves in the first place what would happen if there were no sort of communication between individuals.

In that case the number of workers would coincide exactly with the number capable of work, for the very cogent reason that nobody could live without employing himself. Stark necessity would drive every one to work to some extent—in fact, a very considerable extent—and beyond this he would work for just as long as seemed to him worth while. He could not possibly imagine himself as "wanting work"; his feeling would always be that he had far more work than he wanted. The more persons capable of work there were, the more work would there be. No observer, not even one coming from the midst of our more complicated and confusing organisation, could suppose that in such conditions there would ever be any danger of "the demand for labour falling short of the supply and leaving would-be workers unemployed." The demand for labour would always absorb the whole supply, and "employment," in the sense of number of persons employed, would simply be equal to the number of persons able and willing to work. The unable and unwilling would be dead. Defoe never depicts his Robinson Crusoe as in want of a job.

Nor does he suggest that if there had been a hundred survivors from the wreck instead of only one, they would have sat on the shore and said: "Our teeming population is too great for the work to be done; we must have an eight-hour instead of a ten-hour day, or else put twenty of us on the unemployed register." It might be more difficult for a hundred to subsist on the little island than it was for one, but that would suggest working more rather than less.

The situation would not be altered by the hundred persons deciding to co-operate by dividing themselves between the different classes of labour.

If the first attempt to distribute the hundred workers between the different tasks provided jobs for only eighty of them, this would be promptly corrected either by distributing the surplus twenty among the occupations already staffed, so as to give the society a little more of the products of all or some of those occupations, or by starting them on the production of some new products—or, of course, thirdly and more probably, by a combination of these two methods.

If somebody from our present Ministry of Labour arrived and asked the Directors of the society, "Don't you find it difficult to keep so many people in employment?" they would answer, "Certainly not; we want a lot more things than we have. Of course if we were very much better off than we are, it might not be worth our while to work as hard and long as we do, but that would not be what you would call a difficulty in finding employment."

Whether such a society worked under conscious direction —autocratic or democratic—or worked by way of countless individual bargains and contracts, would not matter at all. The system of co-operation by individual agreement could only come into existence gradually, owing to individuals finding that they could get more by exchanging services than by working each in isolation, and we cannot imagine anyone complaining that he had been "thrown out of work" or "deprived of his employment" when he improved his condition by concentrating on a special kind of labour. A person who gave up making his own clothes and going a long distance to the salterns to fetch salt. because he found he could get clothes and salt more easily by increasing his agricultural output and selling the addition for clothes and salt, would scarcely be likely to complain of "loss of employment."

Expansion of the co-operating circle would present no difficulty. There would be no obvious "vacancies" for additional workers, but to say that therefore no new workers could be received, would be like saying that a tree cannot grow because there are no obvious vacancies on the trunk for new branches, nor on the branches for new twigs. Of course if would-be recruits fell down from heaven at the rate of a hundred thousand a week on some Stow on the Wold or Bury St. Edmunds, and declared that they were skilled mustard-makers, and mustard-makers they

must always be, they could not all be employed. No cheapening of mustard, no "publicity campaign," however aided by fictitious "Mustard Clubs" and "Barons de Beef," would suffice to enlarge the demand for mustard to the necessary extent. But if we imagine the recruits arriving, as they do in real life, in the shape of boys and girls spread all over the area, and becoming adolescent workers under the care and influence of their parents and friends, who push them into the various occupations wherever the most promising openings present themselves, we can see that the expansion of the different classes of employment would be sufficiently simultaneous to secure an all-round increased demand for goods and services to meet the increased supply. It is clearly wrong to assume, as the less instructed members of the public are apt to do, that because increase in the amount of mustard or of any other single product makes it more difficult to sell the whole of that product, therefore an increase in the amount of all products will make it more difficult to sell them all. When one is increased alone, the value of it necessarily tends to fall, because it is more plentiful relatively to other things. But when all are increased, there is no tendency for all to fall in value, because the increased plenty of each is counteracted by the increased plenty of the others.

It would not be from expansion of numbers that unemployment might be feared, but from dislocations inside the co-operating circle. A cessation or diminution of demand for some product, or a discovery of some improved method of producing it, might render it impossible for some or all of the persons who had become specialised in a particular occupation to continue to be employed in it. These persons would not go back to the old non-co-operative way of living, because the condition of persons inside the co-operating circle would have become so obviously superior to that of those outside that no one would willingly try to live in isolation. Anyone thrown out would prefer to cadge on those remaining in; he would say he was "willing to work but unable to obtain employment."

But a better possibility than either going back to self-support or cadging on others would clearly exist in a redistribution of employment between the different kinds of labour.

Owing to the shortness of working lifetime, much redistribution of the working force between different occupations could be effected in the course of a few years without any individual being required to change his occupation. Human beings begin to work

in their teens and drop out at various times, most of them within sixty and nearly all within seventy years. If we put the average duration of working life at forty years, and suppose the population stationary, $2\frac{1}{2}$ per cent. of the workers would be dropping out per annum and being replaced by an equal number of recruits. There are few occupations which could not be wiped out in less than sixty years simply by a cessation of recruiting, and without anyone being obliged to leave unless by infirmity or death.

It is worthy of notice that the mutability of the working force owing to the shortness of working life, while thus making redistribution easier when population is stationary, makes it still easier when population is increasing. This can best be shown by a numerical example: if when the population is stationary each member of it reduces his consumption of some product by 10 per cent., the aggregate consumption of that product will fall 10 per cent.; but if the population has increased a little over 11 per cent., a 10 per cent. reduction of consumption per head will leave the aggregate consumption undiminished, and no diminution of the number of workers producing the article will be required.

Nevertheless, changes would often be sudden and large enough to require that the redistribution should be carried out in part at least by a transference of living individuals from one occupation to another, and difficulty would be involved in this transference.

Often the reduction of demand for one particular kind of labour would be necessarily accompanied by an increase in the demand for another kind, and sometimes the new kind would be easily undertaken by persons accustomed to the old. If, for example, horses were superseded by automobiles, the demand for horse-drivers would diminish, but it is easy for a horse-driver, if not addicted to drink, to become an automobile-driver. In such cases redistribution would be easy, but it might present great difficulties in other cases. If straw hats went out of fashion, and felt hats took their place, the straw-hat makers would find it difficult to "take to" felt-hat making, which is a very different kind of art. Besides, the two arts might have been carried on in different places, the straw-hat making in a Luton, and the felt-hat making in a Stockport; the change of fashion might come suddenly, so that the felt-hat making would draw all the necessary recruits from the neighbourhood of Stockport before the straw-hat makers of Luton realised that their trade was dead. In such cases the workers in the superseded trade would not, like the horse-drivers, find a new and possibly more lucrative employment

obviously calling for their services. They would find it difficult to move to Stockport, and if they succeeded in doing so after some delay, they would by that time find no vacancies in the felt-hat industry even if they were competent to fill them. If they started felt-hat making at Luton when the industry at Stockport was already supplying all the new demand, the trade would be over-supplied; more felt hats would be produced than people would demand even if they could buy them cheaper. Some pessimist economists would look round despairingly and say there was "no evidence of vacancies for workers anywhere." But in fact there would be vacancies, because the felt-hat industry at Stockport would have attracted persons who would have been employed in certain other industries if there had been no change of fashion. A small drift of industry all the way to Stockport from Luton would then relieve matters, the Luton straw-hat makers being widely distributed among all the industries a little depleted by the increase of felt-hat makers at Stockport.

Pressure, of course, would be necessary, but it would be applied by the prosperity of the Stockport and the adversity of the Luton hat-making, each of which would be shared to some extent by the other trades in the neighbourhoods of Stockport and Luton.

To the pessimist economist an even more desperate situation would seem to arise when something occurred which altogether wiped out the demand for some product without obviously putting an increased demand for some other product in its place. Thus we might imagine not that straw hats were superseded by felt hats, but that all hats and other head-coverings were superseded by bare heads in consequence of fashion decreeing that hats shall no longer be worn. Where, the pessimist would ask, are there any vacancies now? But the answer would almost obviously be: "The community, or rather the individuals of which it is composed, having no further need for hats, all that they formerly gave for hats can now be given in exchange for other products, and it is in the making of these products that the displaced hatters should look for employment. It is true that no single product—barring perhaps hair-oil and remedies for sunstroke—is indicated as more necessary than before, but the demand for most things is more or less elastic, so that people's means being enlarged by their not having to pay for hats, we may be sure that they will slightly enlarge their purchases of a good many other things if the displaced hat-makers distribute themselves judiciously over the remaining field of industry, increasing most largely the produce of various things for which the demand is most elastic,

and also perhaps starting the production of some entirely new services or commodities." In practice this would mean the displaced hat-makers spreading themselves very widely, with a decided bias in favour of luxuries as against necessaries. It is obvious that spreading would be necessary; to put all the hat-makers into the manufacture of any other single article would multiply it till its value fell so much as to make earnings in it disproportionately low and perhaps below the level of bare subsistence. The bias in favour of luxuries as against necessaries would be required, because in regard to necessaries people are always nearer the point of satiety than they are in regard to luxuries. Indeed, if "necessaries" were only used in literally necessary amounts and qualities, we could say that everyone alive proved by the mere fact of being alive that he had all the necessaries of life in sufficient quantities, and therefore that, except for the increase of population, no increase of necessaries was wanted at all. In fact, a certain excess and elaboration of necessaries are enjoyed; one pair of braces may be a necessary of life, but there is some convenience in having as many pairs as one has trousers, and some people are believed to find an æsthetic pleasure in wearing beautiful braces. Consequently it would not be true to say that since the unemployed as well as all other people were already fed and clothed, none at all should be drafted into the production of food and clothes, but it remains true as a general rule that more room would be found in the luxury trades than in the necessary. So, in the simple state of things which we have been supposing, it is clear that there would be no limits to employment except those imposed by the number of potential workers and their willingness to "go anywhere and do anything" on such terms as could be got. Unemployment would occur, but would be the result, not of there being too little work to go round, but of circumstances which caused some persons to offer to produce things or services on terms which the rest did not think good enough to be accepted by themselves. Ex-hatters would be out of employment if they persisted in offering to produce hats when people had decided that it was better to do without hats, or if they persisted in asking more for some other kind of labour than the consumers, potential and actual, of the product of that labour thought it was worth.

The source of employment would remain what it is in the case of isolated individuals—the desire of man to satisfy his needs. But while the isolated individual satisfies his own needs directly by his own labour, each of the associated individuals would satisfy

them by the indirect method of satisfying other persons' needs, and having his own satisfied by what he got from them in exchange. When they failed to agree in the bargain, unemployment would appear.

Now is this Robinsoniad, as I am sure some of you will contemptuously call it, utterly unlike what we have to face in real life?

Real life is not nearly so unlike as it appears at first sight. To talk of the thousand million workers in the world as having arranged terms on which they will work for each other, certainly seems a little unreal. Human imagination boggles at the task of conceiving what would happen if we all lost both our memories and our records and had to start afresh, each of us having to come to an agreement with all the others who might want his services or be prepared to serve him. But we never need a fresh start. The beginning was made ages ago when population was sparse and facilities of transport were trifling, so that each man had few neighbours and little chance of serving and being served by people at a distance. It is only by a very gradual process that the little circles within which co-operation was possible have widened till they have cut into each other and produced an organisation which covers the whole earth, and is so complicated that it is quite exceptional for anyone to have more than a vague impression of the thousands of men and women in all parts of the globe who have contributed their mites of labour to the production of the food which he eats and the clothes which he puts on, and it is unusual for anyone to have very much more knowledge of those whom he serves directly and indirectly and who may sometimes be as numerous as those who serve him. Moreover, though the body of persons in economic co-operation cannot, any more than the human body, be resolved into the atoms of which it is composed, and be reconstituted in a new form, old atoms are continually going out of it, and new atoms are continually coming into it, so that the complicated mutual agreement is constantly subject to gradual modification. There does not seem to be the smallest ground for the common belief that under existing conditions increase of population can outrun increase of employment. The additional workers make employment for each other just as much as they would do in our supposed simple state.

As far as those are concerned who work, as we say, "on their own account," for purchasers of their products or services rather than for "employers" in the ordinary sense of that word, there

can be little doubt or difficulty. When we see in a growing town or suburb the new brass plate of a fresh doctor or dentist, the new shop-front of a fresh butcher or grocer, and the new board of a one-man garage or a one-woman laundry, we do not doubt that these people are working for each other, and that the increase of persons of working age willing to work for each other and successful in agreeing about the terms on which they will do so has been the cause of the increased employment. Unemployment may appear for just the same reasons as in our supposed simple state. If a doctor puts up his plate where nobody is ill or where everyone already has sufficient medical attendance, and if a laundress offers to wash only at prohibitive prices, such persons will fail to get employment, but their failure will not show that the organisation is closed against all recruits, but only that the doctor and the laundress are not offering the right kind of work on acceptable terms.

The fact that some or all of these independent workers have to use instruments which are private property—"capital," as most economists call it—does not destroy the argument. If the property is their own, those that are better provided with it will be able to produce more or better products, but there is nothing in this to alter the demand for labour. If we suppose that some of the workers have not sufficient property of their own, and therefore hire instruments from others, as farmers hire land from landowners and as cab-drivers used to hire cabs from cab proprietors, or if we suppose them to borrow money from others to buy such things, there is still no reason for supposing that new limits to the amount of employment will be introduced. Workers who borrow in this way will indeed have to share the produce with the owners of the property, but that is all.

Difficulty only seems to arise when a somewhat different method of co-operation is adopted as between the workers and the owners of property. Instead of workers paying owners of property an agreed rent or hire for the use of it and having the whole of the produce either for their own consumption or for exchange for other things and services, the workers may agree with the owners of property to work more or less under their direction, using their land or instruments, and abandoning to them the whole of the produce in return for agreed wages or salaries.

Now though the truth has been much obscured by verbose sophistries, it is easy to see that no new limit to employment can be introduced by the workers contracting with owners of property to work for an agreed sum and to let the owners of the property

have the produce instead of contracting to give the owners a fixed rent and keeping the produce for themselves. The difference is that under the first system the workers take the residue after paying the owners what has been agreed upon, and under the other system the owners take the residue after paying the workers what has been agreed upon, and there is no reason to suppose that this causes the amount of employment to be limited by capital or anything else.

What *can* be said is that when, instead of bargaining directly with the consumers of their products, large numbers of persons are employed by intermediaries,[1] unemployment is likely to be somewhat greater, because the persons so employed are less likely to adapt themselves quickly to the needs of varying situations. When a person is offering services to an employer who re-sells to the consumers, it is much less obvious to him that in order to keep in employment he must produce what the consumer wants at a price which the consumer will pay, than it is when he is offering goods or services directly to the consumer. His bargain now has to be made with the employer, and he is naturally apt to concentrate his mind on the fact that within certain limits he can get more by squeezing the employer, and to give too little weight to the fact that the employer will not be able to sell more than certain amounts at each step in prices, the amounts diminishing as the price rises. He will always be inclined to say at first that the employer's residue is too large. If that is disproved by a demonstration that as a matter of fact it is very small, or even negative—a loss, in fact—he will fall back on an assertion that the business is badly run, or that the employers are not getting as good prices as they might do if they were better bargainers or did not compete so vigorously. If he is one of a large number of persons either employed by the same employer or employed under uniform standard terms by a number of employers, conversation with his colleagues is likely to confirm his belief that the difficulty could be removed by better management, and if he and his colleagues are members of an organisation of which the

[1] I use the neutral word "intermediaries" rather than "capitalist-employers" because there are now, growing in number and importance, intermediary employing bodies which are not owners, but only borrowers of the capital used in their business. Such are distributive co-operative societies and many port authorities which pay an agreed rate of interest on the capital lent to them and give whatever surplus over expenses there may be to the customers, either by way of dividend on purchases or by reduction of charges or by improvement of facilities. Governments, national and subsidiary, fall into the same category when they work a service "on business lines" so that the charges which they make cover expenses, including interest on borrowed capital, but do not yield a profit beyond or above.

principal business is to make the best possible bargain for its members, he and they are likely to hear the arguments which can be put forward in their favour more often and more trustfully than those which tell on the other side.

In this way the natural reluctance of the individual to leave his occupation and adopt another is made greater than it would be in a simpler state. Mobility is further reduced when the workers' organisations in flourishing trades hamper the admission of recruits to those trades by restrictions on learners and insistence on standard uniform wages. Transference from a declining to a flourishing industry is clearly hindered if adult persons cannot be employed in the flourishing industry unless they have been apprenticed to it in youth, or must be paid full standard wages while they are still inexperienced and consequently inefficient.

Opinion may differ about the exact importance of these obstacles to mobility, but that they are of considerable practical importance is certainly suggested by the fact that the unemployment of ordinary times is much greater in the occupations in which people are employed by intermediary individuals and institutions than in those in which they work directly for the consumers, whether they sell services or goods.

"This line of argument," it may perhaps be objected, "is plausible as an explanation of the manner in which the doctrine of 'there is room for all in industry' may be reconciled with the existence of unemployment in particular trades, but it does not account for depressions in which unemployment is general. Employment is certainly never uniformly bad in all trades at once—in some it is always better than in others—but it is often so widespread that it cannot be attributed entirely to want of mobility."

But general unemployment is in reality to be explained almost in the same way as particular unemployment. In a particular employment, provided demand for its product is elastic, more persons can be employed if they will work for less remuneration. In all employments *taken together*, demand is indefinitely elastic, and consequently indefinite numbers can be employed if they do not ask for too high a remuneration. General unemployment appears when asking too much is a general phenomenon.

It seems unlikely that such a phenomenon could appear in our supposititious simple state. If A was expecting much more than he could get from B, he would be disillusioned when he found

that B had equally extravagant expectations of what he could get from A.

But when nearly all bargains are made in terms of money, and incomes are universally reckoned in money, general illusion is easier and disillusionment is not likely to come so quickly. It becomes much easier to expect more than can be got, and it takes longer to discover the mistake. When A and B, instead of exchanging their products directly, both sell them for money in the market and do not come face to face, their extravagant pretensions are not confronted with each other. Each imagines himself as getting money from an impalpable entity called "the consumer," whom he credits with infinite means of payment, rather than as bartering his own product for the products of other people. The terms on which he parts with his product depend, in fact, just as much on the purchasing power of the money he receives as on its amount, but it is very seldom that he fully realises this. Everyone who produces and sells some particular kind of goods or services naturally watches the prices of the things he sells more carefully and intelligently than the prices of those which he buys. The things which he sells are his specialty and are small in number; those which he buys are a multitude, and each of them taken separately is only a part, and usually a small part, of his expense. Their prices seldom move all in the same direction at once, and if they do, they never do so all at exactly the same rate so that to make out what is the rate of movement of the whole is by no means easy. Therefore producers, with very few exceptions, take far more notice of changes in the amount of money which they get than they do of changes in the amount of things which they can buy with the money when they have got it. Nearly everyone is more pleased with a rise of 10 per cent. in his money-income than he is annoyed by a coincident 10 per cent. rise in the price of the things he buys, and nearly everyone is very much more annoyed by a fall of 10 per cent. in his money-income than he is pleased by a coincident fall of 10 per cent. in the price of the things he buys.

Consequently, when a variation in the general purchasing power of money is taking place, the readiness of people to co-operate on the terms which they offer one another is very seriously affected. If the variation is a fall in the value or purchasing power of money, their readiness, as a whole, is increased, because those who buy services with the intention of selling the products of those services are made more ready to buy them by the expectation of their profit on selling being improved by the intervening rise of

prices. Their greater readiness to buy the services is not at once counterbalanced by an equal increase of reluctance to sell in the minds of those who render the services, because these persons, accustomed to reckon their economic welfare by their money-income, are slow to grasp the fact that their real income is being reduced, and so do not at once insist on their money-income being raised sufficiently to prevent this worsening of their condition.

On the other hand, when the variation is a rise in the value or purchasing power of money, the readiness of the intermediaries to buy services is diminished by the expectation of themselves realising lower prices, and the diminution is not counterbalanced by an equal increase of readiness to sell the services, because the sellers of services—wage-earners and salary-earners—accustomed, as I said before, to reckon economic welfare by money-income, are slow to recognise that a somewhat diminished money-income will give them as much real income as before. Their refusal to accept lower money-earnings knocks out the demand of some of the weaker employers altogether, and causes the stronger to reduce their staff, and this creates such widespread unemployment that we call it general, though of course it is not universal, since some trades will be expanding in consequence of special causes which alter the relative position of occupations.

I have never been one of those who believe that great inconvenient changes of price-level are as unavoidable as changes of weather, and I am convinced that the present trouble is due to the reigning school of monetary experts having mixed up the rate of interest and the purchasing power of money in such confusion that they no longer know how to maintain or raise a price-level, while the Treasuries, which know very well, are afraid of medicine of which an overdose is so easy. But this does not in the least invalidate my thesis that the demand for labour is indefinitely extensible with the number of persons able and willing to work for a remuneration compatible with the conditions of the time and place. It does not in the least impugn the truth that general unemployment is the result of a general asking too much. It only means that those who are asking too much have been led into doing so unconsciously.

"What is to be done if the world is too stupid to prevent great declines of price-level?"

In that case, it should learn to submit to declines of money-incomes without squealing. Money-profits should be allowed to fall without subsidies and protective duties being called in to

support them. So-called "fixed interest" should be allowed to be eaten away by defaults and stoppages without too much attention being given to the injustices involved. Money-wages and salaries should be allowed to be reduced without resistance to the reductions being backed by the State and public opinion.

If I may be allowed to add a word specially appropriate to the present moment, I would say the public should learn to distinguish between the false "economy" effected by stopping quite desirable work without putting any other in its place, and the real economy effected when rates of pay are reduced so that more persons are employed and production increased.

EDWIN CANNAN

NEW ZEALAND'S ECONOMIC DIFFICULTIES AND EXPERT OPINION

ALTHOUGH favoured in the early stages of the world economic depression by satisfactory export prices, New Zealand was later drawn into the vortex, when her export prices fell and overseas borrowing was suspended for a time in 1931. There was little outward sign of trouble in the middle of 1930, when the Australian situation was being investigated by Sir Otto Niemeyer and Professor Gregory. The reason was obvious, though neither of these authorities appeared to draw the attention of the New Zealand authorities to it during their brief visit to the Dominion.[1] Consequently, there grew up in New Zealand the opinion that Australia's difficulties were primarily due to unsound internal policy from which New Zealand was immune. This view was held widely even as late as the middle of 1931, though at that time there was ample evidence to the competent observer that the economic blizzard had long since commenced its devastating influence upon New Zealand industry and finance. Some measures had been taken to adjust conditions to the fall in export prices. Thus wages were reduced by 10 per cent. by the Arbitration Court, economies in the Public Services, including a 10 per cent. cut in salaries, were made, and mortgagees were given some relief from foreclosure and payment of interest under certain conditions. But major measures were not considered necessary, and the original Treasury estimates that revenue from taxation could be kept at the former figure of £18·4 m. by additional

[1] By the middle of 1930 the fall in export prices had been only 20 per cent. in gold, and overseas borrowing had not been interrupted. There was consequently little disturbance to national income. The date at which different materials fell in price marks the beginning of the difficulty for the countries producing these materials. Thus the League of Nations in the *Course and Phases of the World Economic Depression*, p. 233, remarks: "This is one reason why British Malaya, Java, Australia, the Argentine, Canada and Brazil belong to the group of countries which have been specially hard hit in the last two years. Similar differences exist between the various semi-manufactured and finished commodities. Countries which are much dependent on the export of cotton and wool textiles have suffered more than those with a large export of electrical equipment, pulp and paper. It is also noticeable that animal-exporting countries, such as Denmark, the Irish Free State and New Zealand, have been in a relatively favoured position, at all events up to the beginning of 1931, owing to the fact that until that time the percentage decline in the prices of animal foodstuffs was no greater than that of maize and oilcake."

income tax, customs duties and post office charges were symptomatic of official opinion. When I visited the Dominion in August 1931, the Treasury was confident that its estimate would be realised, despite the overwhelming evidence of a falling national income and a severe decline in imports. Six weeks later the Budget had to be revised to cope with a further anticipated deficit of £1·5 m. The year ended on March 31, with a deficit of over £2 m., though reserves to the amount of £1·5 m. had been used to sustain the revenue. It was a typical Budget crisis faced by a Treasury in a typical way by increasing taxation, reducing expenditure and using reserves. Little was done to promote any fundamental reorganisation of the basis of the Budget or to maintain the money value of the national income through operating on the price level. On the contrary, there was a fundamental belief in the virtue of deflation, and this belief was later confirmed in opinions cabled from London by the two distinguished overseas visitors, Sir Otto Niemeyer and Professor Gregory. Yet at the very time when this advice was being given to New Zealand these two experts were witnessing a fundamental change in Great Britain's monetary policy, where the Treasury and the Bank of England were preparing to keep up British prices by preventing an undue appreciation of the pound in terms of dollars. Even the economists of New Zealand and Australia were aware of this fact, and when an expert committee of three New Zealand economists, and one Australian together with the Secretary of the Treasury, were asked to advise the New Zealand Government, they naturally urged the Dominion to follow the example of the Mother Country. It is true that the Secretary of the Treasury dissented from certain sections of the report concerning the control of the currency, referring indirectly to the suggestions of the four real currency experts as "tinkering with the currency." Yet their suggestions amounted to no more than the adoption of what Great Britain is now doing through the Exchange Equalisation Account.

The Economic Committee, under the Chairmanship of Dr. James Hight, to whom so many economists in this part of the world owe a debt of gratitude for a sound early training, found that New Zealand was experiencing a drastic and sudden fall in the national income.[1] This was estimated to be £150 m. in 1929 and was moving towards £90 m. at the ruling rate of exchange, 10 per cent. below par with sterling. Such was the effect of the fall in export prices and the reduction in external borrowing.

[1] Report of the Economic Committee appointed by the Prime Minister (Government Printer, Wellington, February 1932).

With exchange at par with sterling, the national income would tend to fall to a little more than £80 m., because of the further fall in export prices. At a 10 per cent. exchange depreciation wholesale prices had fallen 10 per cent. between 1928 and December 1931, retail prices about 11 per cent., money wages about 12 per cent. and export prices 43 per cent. In terms of sterling, depreciated at that time by approximately 30 per cent. from gold, New Zealand export prices had fallen 47 per cent. from 1928. In conformity with the movements in gold and sterling prices, New Zealand export prices continued to fall after the Committee had completed its work. The index of farm expenditure prepared by the Government Statistician was later shown to have fallen only 9·3 per cent. from 1928 to 1931. It is interesting to observe that all the indices—farm expenditure, wholesale prices, retail prices—fell round about 10 per cent. while export prices fell four times as much. It was this disparity between export prices and other prices, which make up the costs of the farmer, that became the chief problem before the Economic Committee. It will be clear that New Zealand costs are very rigid, and that to bring returns and expenses on the farm into tolerably close agreement required a desperate effort. Further, New Zealand had for years been a heavy overseas borower, the net amount raised overseas in the period 1926–30 being about £5 m. per annum. The total direct income of New Zealand from overseas was thus £5 m. from borrowing, plus approximately £55 m. from exports. This total of £60 m. was in 1929 40 per cent. of the national income. The fall in export prices has reduced the value of exports from £55 m. to approximately £32 m., a loss of £23 m. To this must be added an increasing loss on account of overseas borrowing, which will necessarily decline. New Zealand prosperity had, indeed, like that of Australia, been based upon high export prices and heavy overseas borrowing. Though fortunate in not experiencing such a drastic fall in export prices as Australia, New Zealand has nevertheless suffered severely, and her whole economic system has been deeply affected by the change in the price level.

The fall in national income naturally upset the Budget, and estimates furnished to the Committee showed a prospective deficit for 1932–33 of £9·26 m.[1] This deficit was due largely to

[1] The Treasurer, however, in his Financial Statement, April 7 last, estimated a shortage of £8·3 m., the difference being due mainly to an increase in the estimates of income tax of £·25 m. and a reduction in the cost of exchange remittances of £·7 m. The last point is interesting. In Australia the Treasuries resisted the

an estimated decline in revenue of £8 m. from 1929 to 1930, but the net increase in expenditure was £1·5 m. for this period. The Committee suggested that adjustable expenditure (excluding debt charges, exchange and unemployment) should be reduced by 25 per cent. on the 1929–30 standard, that unemployment subsidies should cease, and the total unemployment expenditure be obtained from a levy on wages and incomes, and an interest adjustment of 20 per cent. (either special tax or conversion loan). The total new savings from these suggestions would amount to £4 m. New taxation, including a sales tax and increased interest from public services, would yield £2·6 m., leaving a deficit of £2·66 m. If the Hoover moratorium were extended, this deficit would be reduced to £2 m. The Treasurer proposes to bring the deficit down to this figure, but his methods differ from those of the Committee, mainly in respect of his treatment of interest on the internal public debt, upon which he proposes to levy a 10 per cent. stamp duty.[1]

The Economic Committee thought a deficit of £2·5 m. was a manageable amount, and that it should be met by the issue of Treasury Bills from the banks, but that the Budget should be balanced by 1934. The public does not know how much will be required in Treasury Bills this year. They must be used to finance the deficit in the Budget, loan expenditure, some unemployment expenditure, to support the Post Office Savings Bank and to assist in the transfer of funds to London.[2] As regards the deficit in the Budget and unemployment expenditure, the Economic Committee arrived at the conclusion that these would be lightened by an exchange rate above parity or above the ruling rate of 110

inclusion in the Budget of cost of exchange as a normal item of expenditure, though this practice has now been adopted. In New Zealand the Treasury uses borrowings in London to pay overseas interest and eliminates the cost of transfer upon this part of the overseas interest. Thus, the Treasury assumes that the pound (New Zealand) is the equivalent of a pound sterling, and that the addition of £5 m. in sterling to the national debt is not really £5·5 m. in New Zealand currency. If New Zealand policy is to restore parity with sterling, this practice may be satisfactory, but it is impossible to judge whether the New Zealand economic position will stand the strain of a return to parity with sterling, which is apparently the desire of both the bankers and the Treasury. For sound Budget practice the cost of exchange should be included in the Budget, and borrowing in London for public works should be shown as loan expenditure in New Zealand of the amount of New Zealand pounds obtainable with the sterling loan raised.

[1] The merits of a conversion loan to a lower rate of interest, which the Treasurer speaks of as amounting to "a composition with our creditors," were fully stated by the Economic Committee. In particular it would help to reduce the interest rate generally and would eliminate any problem of conversion. Over £26 m. of the internal debt held by the public matures during the five years ending March 31, 1937.

[2] In order to promote economy and sound finance, the Treasury Bills issued should be published monthly as in Australia.

per cent. The main reason for this vital and much-disputed conclusion was as follows. A higher exchange rate increases the value of exports in New Zealand currency, and, therefore, ultimately increases the money value of the national income. The higher rate also increases the cost of interest on the external debt and necessary materials, but these increases in expenditure would be much less than the increased taxable capacity, on account of the higher national income. This conclusion has not been successfully contested, yet it is remarkable to find authorities like Sir Otto Niemeyer and Professor Gregory deploring the increased issue of Treasury Bills that would be necessary to finance the external debt service under a higher exchange.[1]

For other reasons a higher rate of exchange was favoured by the Committee. At 110 per cent. exchange export prices were approximately 60 compared with 1928 as 100, while farm costs were 90. A rate as high as 140 per cent. used by the Committee for illustration, would raise export prices only to 76. Even at this rate a direct reduction in costs would be necessary. The Committee suggested reductions of 20 per cent. in rent, interest and wages from the 1928 level. They proposed a double-edged policy. Export prices were to be sustained by a higher exchange, and costs were to be reduced by direct cuts. Some rise in sterling prices was hoped for to complete the process of adjustment, which would be impossible by deflation alone.

There were two other reasons for suggesting a higher rate. First, the disparity between New Zealand and sterling prices was also serious. To bring New Zealand prices into conformity with sterling a drop of 33 per cent. was required. But as New Zealand

[1] A classic statement of the objections to the high exchange rate was made by Sir Otto Niemeyer before the Australian Loan Council in August 1930, when he stated that "rising exchange rates prejudice the whole fabric of national finance." This is doubtless true when a community deliberately sets out on a course of inflation during a period of normal movements in world prices. When, however, a primary producing country with rigid costs in the exporting industries experiences a drastic fall in export prices, a rising exchange rate may be the only means by which the fabric of national finance may be safeguarded. The experience of Great Britain in the past six months is in itself sufficient to discount Sir Otto Niemeyer's view, which still has great vogue in New Zealand. Similarly, Professor Gregory, in the opinion he expressed at the request of the Chairman of the National Bank of New Zealand, portions of which were published in the New Zealand press on February 25, argued that increased Treasury Bills would be required to finance remittances for the overseas debt, that an automatic expansion of the volume of credit and currency would follow and an increase in the New Zealand price level. This seems to me to be in complete disagreement with the facts. It would be true if overseas prices were stable or increasing. It cannot be true at the present time, as the history of every country with a high exchange rate has proved, because the high rate merely serves to prevent too severe a deflation in the country concerned, thus sustaining national income, Government revenue and the financial position of the farmers.

had been a borrowing country, it had been possible to maintain prices at a high level, and therefore the fall required to establish real parity with sterling might be as much as 40 per cent., unless sterling prices rose. Deflation of this order could not be embarked upon with any prospect of success in an economic structure that had shown such price rigidity. The Committee, therefore, urged that the Dominion should not attempt the hopeless task of bringing about equilibrium by attempting to force down the price level by this amount.[1]

Secondly, the effect of a widespread deflation on financial institutions would be serious. There is no need to labour this point. It has, however, special significance in New Zealand, where land values have been high and farming requires a good deal of working capital each year. Not only has the value of the land fallen so that many conservative first mortgages are not earning interest, but the price of farm stock has slumped even more severely, and farmers now find themselves heavily indebted to stock and station agencies which are not always able to supply working capital. A continuance of the present policy of deflation must mean serious financial losses from which the banks will not be immune. Further, it must mean a decline in export production, because of less efficient management and shortage of working capital.

Thus, apart from the trade balance, at the moment there were excellent reasons for arguing that a higher exchange rate would be in the best economic interests of the country. When Britain went off the gold standard, the New Zealand rate was 10 per cent. premium on sterling. Early in December, the Government was advised that it must cease short-term borrowing in London and arrange for the repayment of £4 m. of Treasury Bills. An exchange pool was set up under which exports were licensed, and all proceeds had to be paid into the accounts of the banks in London.[2] The rate of exchange was to be that fixed by the banks, but in case of dispute the Minister of Finance could determine the rate. The Treasury and the banks were willing partners to this arrangement, because it gave the banks complete control of the exchange market and the rate could be pegged down as the Treasury desired. There is evidence that one of the six banks doing business in New Zealand was averse to maintenance of a low rate, and preferred an open market in exchange.

[1] With 1927 as base the British wholesale index for 1931 (January to November) was 63·4, Australia 76·0 and New Zealand 94·5.

[2] It is estimated that normally about 15 per cent. of export business is done outside the banks.

This only made the other banks more keen on keeping the position in their own hands, and in this they were supported by the metropolitan press and the cabled views of Professor Gregory and Sir Otto Niemeyer already referred to.[1] Both guardedly conveyed the impression that sterling prices would soon rise. Gregory spoke of the British price level being " exposed to quite novel influence in the near future," while Niemeyer thought that " there is a possibility and signs of a change in tendency of world prices."[2] They, therefore, counselled caution in exchange policy. What they ought to have said on this point was that they thought a rise in world or sterling prices was imminent, but that this must show itself in a rise of not less than 65 per cent. in New Zealand export prices if the traditional policy of the banks and the Treasury was to be successful, and New Zealand to return to par with sterling without grave hardship. Even then export prices would be 80 compared with 100 in 1928, and a permanent adjustment of considerable proportion would remain. Is it reasonable to hold out any hope to New Zealand that such a rise in export prices is possible even under the changed policy of the Treasury and the Bank of England, with which both Gregory and Niemeyer are out of sympathy when applied to New Zealand ?

Perhaps the most extraordinary argument put forward was that by Gregory when he stated that the existence of a surplus of £7 m. in the balance of trade for the first eleven months of 1931 robbed of a great deal of its weight the argument that the 110 per cent. exchange rate seriously over-valued the New Zealand pound. This is a flat contradiction of what Gregory teaches in his writings on exchange,[3] and it is contrary to all experience. That con-

[1] Professor Gregory's opinion was given to the National Bank of New Zealand at its request, and Sir Otto's appeared in the Press from some unknown source, presumably the New Zealand Treasury. For the conditions of exchange control, see Regulations published in *New Zealand Gazette*, December 22, 1931. These regulations remained in force despite the raising of the loan of £5 m., early in April, but were abrogated in July, 1932. For 1931 imports were approximately £25 m. and exports £32 m. Overseas obligations, including repayment of £4 m. Treasury Bills, were estimated at £14 m. Hence, assuming exports remained at £32 m., imports would have to fall to £18 m. compared with £49 m. for 1929. This could be done by raising the rate of exchange or rationing imports, and the banks preferred the latter. Professor Gregory had nothing to say in his opinion about the ultimate effects of the pegging of exchange and the over-valuation of a currency. He might well have referred the bankers to his own writings *passim*.

[2] In fact, the trend of both sterling and world prices has been downward since the opinions were given, and certainly New Zealand export prices have shown no indications of recovery.

[3] See *Foreign Exchange, Before, During and After the War*, p. 83 : " If the price level of one country is higher than the price levels in other countries, then the condition for export from that country to the others is that the rate of exchange between its currency and that of the others should be such that the fall in the exchange should compensate for the rise in the internal price level. If the fall in

siderable aberrations from the purchasing power parity may be observed in the movements of the exchange rate over a period is well known. But this does not justify the view that export production will continue at a loss in a primary producing country.[1]

Professor Gregory also gave encouragement to the view that wages, interest and rent would rise with a rise in the rate of exchange. This could be understood if New Zealand suddenly inflated while the rest of the world was enjoying a tolerably stable price level. But what grounds are there for supposing that any of these money costs could possibly rise when the community was being impoverished by a fall of 47 per cent. in the sterling prices of its exports in two years? What the local economists contended was that a higher rate would render less difficult the adjustments to be made in these costs. Yet with even a 40 per cent. rate a reduction of 20 per cent. in money costs would be necessary. In giving credence to a popular fallacy, Professor Gregory has not advanced the cause of pure economic science in this part of the world.[2]

Finally, both Gregory and Niemeyer refer to *inflationary* borrowing on Treasury bills. They think that this tendency will be increased under a high rate of exchange, a point that has already been dealt with above. Should we not clear our minds of what we mean by inflation? When he was in Australia, Sir Otto Niemeyer urged Australia to balance her Budget in one year. I did not agree with the action of the Australian governments in rejecting Sir Otto's advice almost *in toto*, but I would have been equally opposed to any policy that had attempted Budget balancing in one year. Its deflationary effects would have been disastrous. I find myself in agreement with Gregory in his article in the *Circular Letter of the Royal Bank of Canada of October*, 1931, where he referred to the need for central banks to finance Budget deficits through central bank credits. This is not inflation,

the exchange is less than sufficient to compensate the rise in the price level, exports will fall off. . . ." See also Chapter III. of his *Gold Standard and Its Future*, written in November 1931.

[1] Thus Niemeyer spoke of the absence of any signs of a "substantial diminution in volume of New Zealand production at the present rate of exchange."

[2] Professor Gregory remarks that some of the dangers of the passing on of costs would be mitigated if the banks could keep the general level of wholesale prices steady. He thinks this could be done only by credit policy, but I suggest that the present crisis has shown that the exchange rate is the more potent weapon, especially in a dependent and debtor country. Prices will be more stable with a high rate than at parity with sterling or under a low rate. Indeed, this is the very object of the high rate, as Gregory will surely admit from British experience in the crisis. In any case, his views of costs under a higher rate in New Zealand are in strange contrast to what he has written on the same problem in Great Britain. See Chapter IV. of *The Gold Standard*.

provided Budget balancing is in sight and prices do not rise above their pre-crisis level. It is a legitimate and sound measure to stave off the worst evils of deflation. This view was put forward by the Economic Committee in New Zealand, as it has been in Australia by local economists. Should the effect be to sustain the local price level above sterling or world prices, and to render necessary the maintenance of a high rate of exchange, there can be no objection to a country taking this course. This also was suggested by the Economic Committee, and is, of course, the practice now being followed by Great Birtain. Yet Professor Gregory in his opinion referred to the fact that " it may ultimately prove impossible to revert to the old parity between sterling and New Zealand money," as though this were the only possible object of monetary policy for New Zealand.

Economists are, no doubt, influenced by the environment in which they work. Perhaps we on this side of the world think too much of the difficulties of debtors and the plight of primary producers. There is evidence that some economists in England have the point of view of the lender rather prominently in their minds. How often are we told that London (the money market) will not like certain measures, especially a high rate of exchange. Thus Professor Gregory drew attention to the unfavourable reaction on New Zealand credit of a high rate of exchange. What he as an economist might have said is as follows : " The British investor does not really understand the conditions that determine your capacity to pay your interest, but he is very nervous about a high exchange rate. This, we know, is quite illogical, but you must humour your creditors as well as pay your interest. Even though a high exchange rate sustains your price level and the money value of your national income, thus lightening the real burden of your internal debt without increasing the burden of the external debt, you must forgo this measure of relief because London objects." Is it not time that this point of view was put with more vigour by the British economists? New Zealand got her reward from the London investor in the shape of a loan of £5 m. maturing in twenty-three years and costing $5\frac{1}{4}$ per cent. The rate ought to be not more than 4 per cent. for such a period, now that the world is facing a definitely low rate of interest. This loan will remind New Zealanders for twenty-three years of the virtues of a low exchange rate, unless New Zealand takes advantage of any scheme of interest reduction that may be secured by her more independent but not less distressed neighbour.

D. B. Copland

The University of Melbourne, April 26, 1932.

THE SITUATION IN FRANCE

1. The Extent and Course of the Depression

Production, which in most countries reached its peak in the first half of 1929, continued to expand in France until the middle of 1930. As late as the second quarter of 1931 France seemed in a relatively favourable position. Since then, however, the situation has rapidly deteriorated, particularly in the first quarter of this year.

The industries which declined both earlier and more steeply than the rest were textiles, iron and steel, and engineering. All of these depend for a substantial part of their market upon exports, and at the same time are responsible for a considerable share of the total export trade of France. The falling off of the export trade must be counted one of the important causes of the depression in France. The fact that French exports are largely destined to European countries whose imports fell off only in the second stage of the depression explains why French production remained so long unaffected.

A further factor in the decline is to be found in the falling off in engineering output, after the extremely rapid development of the years 1928–30. It is interesting to observe that building was by no means one of the first industries to decline, and has so far shown only a comparatively moderate reduction.

TABLE I

Index of Industrial Production

(*Bulletin de la statistique générale de la France.*)

(Base 1913 = 100.)

Year.		Total.	Engineering.	Metals.	Textiles.	Mining.	Building (adjusted).
1930.	1st Qr. . .	144	161	129	87	129	140
	2nd ,, . .	144	161	130	87	121	142
	3rd ,, . .	139	159	123	81	121	138
	4th ,, . .	135	149	119	85	120	132
1931.	1st ,, . .	133	144	116	83	118	130
	2nd ,, . .	129	142	108	77	111	126
	3rd ,, . .	121	135	102	65	105	122
	4th ,, . .	114	123	88	61	107	121
1932.	1st ,, . .	101	105	73	53	98	116
	2nd ,, . . (April and May only.)	94	95	72	55	98	104

The yearly figures since 1926 are as follows :

Year.	Total.	Engineering.	Metals.	Textiles.	Mining.	Building (adjusted).
1926	124	132	113	94	114	114
1927	109	114	112	90	117	80
1928	127	138	125	99	117	97
1929	139	157	129	92	123	123
1930	140	157	125	85	123	137
1931	124	136	103	71	110	125

Employment in establishments employing one hundred or more persons shows a reduction of 18 per cent. in the first quarter of 1932 as compared with 1930, or of approximately 25 per cent. if allowance is made for short-time working. This compares with a reduction of production of approximately 30 per cent. over the same period. These figures are neither completely comparable with one another nor with the corresponding figures for employment and production in other countries. But they give reason to suppose that the depression in France, if it has not reached the intensity observable in Germany and America, is at any rate as severe as in Great Britain and other European countries.

The comparative stability of French export trade up to the middle of 1931 and its subsequent rapid decline are illustrated in the following table, where the official indices of the volume of trade in France and Great Britain are compared.

TABLE II

Volume of Exports

(Base quarterly average 1928 = 100.)

Year.	France. *Statistique générale.* Adjusted for Seasonal Variation.	France. *Statistique générale.* Unadjusted.	United Kingdom. Board of Trade.
1928	—	100	100
1929	—	99	102
1930	—	91	82
1931	—	77	63
1930. 3rd Qr. . .	84	85	80
4th „ . .	83	87	77
1931. 1st „ . .	78	77	64
2nd „ . .	78	76	61
3rd „ . .	75	75	62
4th „ . .	72	75	65
1932. 1st „ . .	60	58	63

In 1927 exports to Europe accounted for 67 per cent. of all French exports, and exports to French colonies for a further

15 per cent. It is therefore not surprising that until the financial crisis of last summer reduced European trade to confusion, French exports should have been comparatively undisturbed. Of French imports, on the other hand, only 45 per cent. were of European origin in 1927.

2. Construction

It has previously been observed that building has so far shown only a moderate reduction in comparison with 1930. The following table shows the number of houses and factories in France at different dates, and the extent of new buildings and demolitions.

Table III

Numbers of Houses and Factories in France (excluding Alsace Lorraine) 1913, 1914, *and* 1921 *to* 1928

Year.	Dwelling-houses.				Factories.			
	Total No. Subject to Tax (in thousands).	Built in Year. No. (in thousands).	Built in Year. Lettable Value (in million francs).	No. Demolished (in thousands).	Total No. Subject to Tax (in thousands).	Built in Year. No. (in thousands).	Built in Year. Lettable Value (in million francs).	No. Demolished (in thousands).
1913	9,474	73·2	52·7	46·9	142	4·5	14·2	2·2
1914	9,515	85·4	58·8	43·5	145	5·4	18·2	2·0
1921	9,260	26·1	19·6	23·6	150	3·9	31·8	1·1
1922	9,264	32·3	24·2	29·0	152	3·6	27·3	1·7
1923	9,299	68·9	33·5	36·1	155	5·7	35·0	2·0
1924	9,345	88·7	44·4	42·7	160	7·2	43·5	2·3
1925	9,391	82·0	37 1	36·5	166	8·2	34·1	2·6
1926	9,333	165·4	58·9	282·0	167	19·9	52·6	19·2
1927	9,377	70·9	113·4	27·2	173	7·8	76·1	1·7
1928	9,418	75·7	132·2	35·1	168	6·9	94·6	12·1

These figures are, unfortunately, not available later than 1928. They serve, however, to show the change that has come over new building in France since the war. In the first place, the building of dwelling-houses except during the period of inflation has been on a smaller scale than before the war, at any rate up to 1928. In the second place, industrial building now represents a much greater part of the total than it did in pre-war days. The value of new factories was about 24 per cent. of the total in 1914 and 41 per cent. in 1928. Since 1928 the index of production for building has risen considerably. The corresponding increase in engineering production and in the total index of production suggests that the building of new factories was responsible for some part of this increase. But there must undoubtedly have also

been a very considerable increase in the building of dwelling-houses. The question of immediate interest is whether the deficiency of accommodation resulting from the war has now been made good, or whether there remains an unsatisfied demand for new houses which a prolonged period of cheap money might bring into the open. There is little reason to be pessimistic in this respect.

With regard to industrial equipment the opportunities for expansion are obviously far more restricted. Not only is it unreasonable to suppose that the rate of expansion of 1926–30 should be maintained indefinitely, but also one of the main causes of this expansion—the relative under-valuation of the franc and the consequent stimulus to exporting industries—is no longer operating. A prolonged contraction of the industries supplying new equipment is not impossible, though this may be averted to some extent by the Government policy of economic development.

3. Financial Situation

In these circumstances revival in France seems to depend on (1) a prolonged period of cheap money, and (2) a revival of export trade. The financial situation holds out hope that the former of these at any rate should be at hand. During the last three years the balance sheet of the Bank of France has shown (1) a steadily rising total of gold and foreign exchange, the latter being progressively replaced by the former since October 1931, (2) a slightly smaller increase in the total note circulation; (3) a moderate reduction in the banks' holding of home bills; (4) a very considerable reduction in the balances of the Treasury and the *caisse d'amortissement*. As a result of these movements, there has been (5) an increase in private deposits from approximately 6·2 milliard francs on the average in 1929 to approximately 24·1 milliard francs in April, 1932.

Table IV

Principal Assets and Liabilities of the Bank of France

(In millions of francs.)

	Average, 1929.	Average, 1930.	Average, 1931.	January, 1932.	April, 1932.
Gold and Devisen	64,226	71,591	84,354	89,407	89,308
Notes . .	64,719	72,208	79,094	84,254	82,342
Home Bills .	6,914	6,008	6,827	6,679	4,322
Public Deposits	12,472	9,345	9,991	5,492	3,252
Private Deposits	6,237	7,844	15,150	22,224	24,088

As a result of these movements the commercial banks have found themselves in possession of greatly increased reserves of cash. So far, however, they have been unwilling to make use of their increased power of extending credit. The following table shows the main items in the balance sheets of four commercial banks, at the beginning of the year.

TABLE V

*Combined Balance-sheet of Four Commercial Banks * beginning of:*

(In milliards of francs.)

Assets.	1929.	1930.	1931.	1932.
Cash with banks	6·4	7·5	8·4	13·6
Bills	20·8	20·1	20·8	17·7
Advances, etc.	10·2	11·4	11·2	9·4
Investments	0·3	0·2	0·2	0·2
Premises and Sundries	0·4	0·5	0·5	0·5
Total	38·1	39·7	41·2	41·5
Liabilities.				
Capital Reserves, etc.	1·4	2·9	2·9	2·9
Deposits	35·1	34·8	36·5	37·4
Acceptances	0·9	1·1	1·0	0·5
Sundries	0·7	0·8	0·8	0·5
Total	38·1	39·7	41·2	41·5

* The balance sheets included in these totals do not all refer to the same date.

In 1931 not less than 4·4 milliards of the cash holdings represented balances with other banks. In 1932 these holdings were not more than 2·2 milliard. Cash and balances with the Bank of France therefore increased from under 4 milliard to over 11·4 milliard.

It will be observed that though deposits have arisen slightly, there has been a contraction both in bill holding and advances and a very marked reduction in acceptances.

It is clear from these figures that the commercial banks have been pursuing an extremely cautious policy, and that it is they rather than the Bank of France who are to blame for any restriction of credit that has taken place in France.

In view of the liquid position of the banks, and the continual inflow of gold, interest rates in France were till recently surprisingly high, and for some time showed a rising tendency.

It may be that the high level of interest rates was brought about by the policy pursued by the banks of holding money off the market in the interests of liquidity. It may, on the other

hand, be due to the budgetary situation to be discussed. There has been a distinct improvement in the price of 3 per cent. rentes in July following on the British conversion operation and talk of

TABLE VI

Interest Rates in France

Year.	Bank Rate.	Discount Rate outside the Bank.	Yield on Fixed Interest Securities.	Price of 3 per cent. Rentes.
1930 (average) .	71	2·26	3·82	87·6
1931 (average) .	12	1·55	3·70	86·7
1931. April .		1·41	3·53	89·5
May .		1·06	3·57	89·1
June .		1·06	3·54	88·3
July .		1·37	3·51	87·5
August		1·5	3·48	89·2
September		1·5	3·60	86·2
October		2·0	3·88	84·2
November	2½ .	1·87	3·92	83·6
December		1·8	4·31	79·2
1932. January		1·8	4·22	78·9
February		1·8	4·35	78·9
March .		1·8	4·41	78·3
April .		1·3	4·62	77·4
May .		1·19	4·93	72·9
June .		1·13	5·15	74·2

conversion in France. One element in the rather paradoxical situation must not be overlooked. Should speculative sentiment improve, the commercial banks are in a position to finance a very considerable upward movement. The Bank of France is at present practically powerless to prevent an undesirable expansion of credit should there be any signs of such a development.

4. PUBLIC FINANCE

The prospect of heavy Treasury financing in the near future may be one of the causes depressing the prices of rentes. The Treasury will need money both to finance the deficit which will certainly appear in the budget and to finance the various schemes of public works which it is the policy of this Government, as of the last, to pursue.

A year or so ago (according to the *Economist*) the Treasury possessed considerable surplus funds, estimated recently by M. Cheron at 19 milliard francs. As a result of various extra budgetary calls, it has now exhausted these. In addition, it has used up a loan without interest of 3 milliard francs to which it is entitled from the Bank of France: has berrowed 5 milliard francs from the Caisse des Depots et Consignations, and has made an

issue of 3 milliard francs of Treasury Bonds. The latter were needed to provide funds for continuing the policy of public works.

Revenue returns continue disappointing, the receipts for the first two months of the new year being 513 million francs, or 8½ per cent. below those for last year. The most serious decline has been in the yield of the turnover tax, which is 15 per cent. below last year. Customs receipts have not declined, largely on account of the higher receipts from petrol duty, the rate of which has been increased. As the budget is only balanced in name, the prospect of a heavy deficiency in revenue in comparison with the estimates is perhaps disturbing. It is believed that little extra revenue can be obtained by increased taxation. No doubt this belief is unjustified.

5. Balance of Payments

The re-establishment of the franc in 1927 left France with a very favourable balance of payments, estimated in the League of Nations memorandum on the Balances of Payments, 1930, as follows:—

Table VII

French Balance of Payments

(In millions of francs.)

Year.	Favourable Balance, excluding Gold Movements.	Gold Movements.	
		Net Imports.	Net Exports.
1927	12,330	--	525
1928	12,458	6,473	-
1929	7,861	8,589	—
1930	5,313	11,742	--

The balance on current items includes the adverse balances of French colonial possessions, and also reparation payments.

It is fairly certain that the year 1931 saw the disappearance of this favourable balance, for all the main items in the account must have moved against France. Her adverse balance on merchandise account (including colonies) must have increased by between 3 and 4 milliard francs, and other items must have brought in about 8 milliard less than in 1929 (including a reduction of reparations and war debts payments). This suggests an adverse balance of 3 or 4 milliard francs. The adverse balance for the current year may well be at the same rate, in spite of an improve-

ment in the merchandise balance of 1½ milliard to date, in view of the continued falling off in other items, such as shipping earnings, interest and tourist expenditure, and of the absence of any reparation receipts.

In 1931 France imported 18½ milliard francs of gold, the Bank of England and the British Treasury borrowed 7 milliard francs for the purpose of supporting sterling, and the adverse balance of trade was, say, 3½ milliards. The withdrawal of French funds from abroad must have been nearly 30 milliard francs, or approximately a quarter of the total French foreign investment.

6. Government Action

The policy of the French Government has been on the one hand to utilise the large Treasury balances referred to, to relieve the depression or to mitigate its consequences, and on the other hand to increase the scale of protection. In addition, the Government has acquiesced in a budget deficit. In short, it has attempted to maintain French prices at a level above that of the rest of the world, and to avoid the flood of imports which in present world conditions such a policy might provoke. In so far as the depression in France is due to local causes (for example, the over-expansion of industrial equipment from 1928 to 1930) or to a falling off in the export trade, this policy is clearly ineffective.

The latest development of protectionism in France has been the use of the quota. The first use of this was in connection with the import of coal, which was subjected to licence in July 1931. In August quotas were determined for wine and timber, in September for a wide range of animal foodstuffs. By the end

Table VIII

Volume of Imports

(Base quarterly average 1928 = 100.)

Year.		France (*Statistique générale*).	United Kingdom (Board of Trade).
1928		100	100
1929		114	105
1930		122	103
1931		124	106
1930.	3rd Qr.	118	97
	4th „	133	111
1931.	1st „	127	98
	2nd „	130	101
	3rd „	120	103
	4th „	111	121
1932.	1st „	99	98

of the year the greater part of the agricultural output was protected in this way against foreign imports. With the beginning of the new year the field to which quotas were applied was extended to include manufactured articles, an important part of which is now covered by quotas. Instances are quotas on sheet steel, cotton yarns and tissues, various classes of tools, implements and machinery, leather, glassware, paper and so on. The effectiveness of quotas in reducing imports is illustrated by the figures given in Table VIII (p. 317).

The falling off since the third quarter of 1931 is very marked. Comparable figures for Great Britain are added.

7. Prices

The effect of this policy on prices is perhaps best measured by an international comparison. In the following table Dr. Bowley's comparable index number is given for five countries. The base has been changed from 1925 to 1929.

Table IX

Comparative Index Numbers of Wholesale Prices.

(From *London and Cambridge Economic Service*.)

Year.		France.	U.K.		U.S.A.	Holland.	Germany.
			Sterling.	Gold.			
1929.	March	105	103	--	101	106	103
	June	101	100	--	98	100	100
	September	97	100	--	101	99	101
	December	95	96	--	96	95	98
1930.	March	91	87	--	90	87	91
	June	89	85	--	82	85	94
	September	88	82	--	81	78	90
	December	83	77	--	74	72	84
1931.	March	83	75	--	71	71	83
	June	80	74	-	66	67	83
	September	75	70	--	64	61	77
	December	72	75	57	64	56	72
1932.	January	71	74	52	62	56	72
	February	71	72	51	61	55	71
	March	72	71	53	59	54	72
	April	71	71	55	59	52	72
	May	71	—	--	58	51	71

It will be seen that in both France and Germany there is a growing divergence between the domestic and world prices, appearing first in 1930, and now quite considerable.

In the early part of this year there was a slight rise in French prices, quite contrary to the general direction of world prices.

The extent and duration of this rise differ for different indices. In any case it seems to have been reversed.

TABLE X

French Prices

(From *Bulletin de la Statistique générale de la France.*)

(1913 = 100.)

Year.	Wholesale.		Retail.	
	45 Articles Unweighted.	126 Articles Weighted.	34 Articles Weighted.	
			Paris.	300 Towns.
1929 (average)	623	627	621	604
1930 (average)	543	554	618	606
1931 (average)	462	502	609	599
1931. July	466	500	617	. .
August	455	488	605	602
September	437	473	596	—
October	423	457	577	—
November	417	447	561	557
December	413	442	563	---
1932. January	414	439	564	—
February	421	446	561	543
March	427	444	558	-
April	425	439	555	.
May	421	438	559	534
June	408	425	554	. .

The following table gives some indication of the importance of quotas in causing the rise in price early this year. It gives the number of goods showing a substantial rise in price out of ninety articles whose prices are available and the number of these rises which occurred in goods subject to quotas.

TABLE XI

Analysis of Price Changes in France, October 1931 *to April* 1932

Year.	Number of Articles subject to Quotas out of 90 Articles Considered.	Total Number of Rises in Price among 90 Articles.	Of which	
			Among Quota Goods.	Among Cereals.
1931. October	13	10	1	5
November	18	14	3	4
December	19	16	6	3
1932. January	20	15	7	2
February	25	27	11	5
March	30	22	10	6
April	30	12	6	3

Cereals are not included among quota goods, though there is a quota scheme applying to wheat.

It is quite clear that though quotas were not without influence in the rise in prices which took place, there must also have been other causes at work. In fact, there was a revival of speculative sentiment in the early months of this year which showed itself in a marked recovery in the prices of ordinary shares, as may be seen from the following table.

TABLE XII

Indices of Speculative Activity

(From *Bulletin de la Statistique générale de la France.*)

Year.		Index of Prices of 300 Ordinary Shares.	Index of Activity upon the Bourse.
1931.	July	309	219
	August	304	158
	September	269	172
	October	249	193
	November	243	146
	December	221	154
1932.	January	250	142
	February	294	221
	March	274	303
	April	250	193
	May	220	156

It will be remembered that it was in March that bull speculation in the pound was at its height.

The relative movement of import and export price in the last few years calls for comment. After the stabilisation of the franc the terms of trade, or the price of exports divided by the price of imports, was less favourable to France than in 1913, in spite of a very different movement in other countries. The subsequent course is shown in the attached table.

TABLE XIII

Terms of Trade

(1913 = 100.)

Year.	France.	Great Britain.
1928	93½	119
1929	95½	119
1930	106	135
1931	111½	150
1932. 1st Qr.	118	146

The terms of trade in France show an improvement of 21 per cent. in comparison with 1928, compared with an improvement of 23 per cent. in this country.

P. K. DEBENHAM

THE PORTUGUESE BANK NOTES CASE

The history of swindles has been enriched in recent years by several sensational examples, but by none more notable than that which led to the case, Banco de Portugal *v.* Waterlow and Sons, Ltd., decided by the House of Lords on the 28th April, 1932.

Messrs. Waterlow, the well-known printers of bank notes, were the victims of a peculiarly audacious conspiracy. They held a contract for printing notes for the Bank of Portugal, and they were induced to produce notes, which were in all technical respects apparently genuine, to the value of about £3,000,000, for a gang of forgers. Before the fraud was discovered, notes to the amount of over £1,000,000 had actually been put into circulation by the conspirators, and Messrs. Waterlow had in the end to pay damages to the amount of £610,000, being the net loss suffered by the Bank after setting off the assets recovered from the conspirators. The conspirators included the Portuguese Minister at The Hague and the diplomatic representative of a South American State. The negotiations with Messrs. Waterlow were carried on through a Dutchman named Marang, who from time to time produced forged letters and documents purporting to convey the authority of the Bank of Portugal for what was to be done.

The story put forward was that a loan was to be made to the Portuguese Colony of Angola by a syndicate which was to have the privilege of issuing notes in Angola. Inquiries which would have exposed the fraud at once were guarded against by representing the whole business as extremely secret, on the ground that it was opposed by some of the directors of the Bank of Portugal, and that the Banco Ultramarino, which already issued notes in the Colonies, would raise objection if the project were known.

How were the notes to be numbered? If they were given numbers not recorded at the Bank of Portugal as ever having been issued, the officials of the Bank could hardly fail to discover them immediately. Instructions were given to Waterlows that the numbers were to be duplicates of those on the last batch of notes genuinely ordered by the Bank of Portugal. That was arranged without arousing the suspicions of Messrs. Waterlow,

but it involved the risk of notes with duplicate numbers being seen and the fact of forgery being thereby established.

The printing of the notes began early in 1925. They were all of the denomination of 500 escudos, or about £5. The first consignment, delivered in February and March 1925, consisted of 200,000 notes, and the second, delivered from August to November 1925, of 380,000. The two together represented a value of 290,000,000 escudos.

The principal difficulty in the way of forgers of currency and false coiners has always been the introduction of their product into circulation. The conspirators surmounted this obstacle by founding a new bank, the Banco Angola e Metropole, with head office at Oporto. That required the permission of the Minister of Finance, and at first there was a hitch on account of the unsatisfactory reputation of some of the promoters. But some apparently respectable names were added, and on the 25th June, 1925, permission was granted, and the bank was duly constituted.

The appearance of unusual quantities of new 500-escudo notes presently awakened a certain amount of suspicion. But the notes of course were to all appearance perfectly genuine, even according to expert tests, and at first the suspicions were met with reassuring denials. The circumstance that led to discovery was that the packets of new notes received from the Banco Angola e Metropole by a jeweller at Oporto, who bought foreign exchange on behalf of the bank, differed from those ordinarily received from the Bank of Portugal in that they were not arranged in consecutive numerical order. An Oporto bank cashier, who was employed in his spare time by the jeweller, noticed this, and communicated his suspicions to the banker for whom he worked and the latter informed the Bank of Portugal.

The cashier had also observed that the pages in the account book on which the transactions in the suspicious notes were entered were always torn out.

The shuffling of the notes out of numerical order was, no doubt, an essential precaution to make the discovery of duplicate numbers less likely, but it remained itself a cause of suspicion. In fact, combined with the torn account book, it was regarded as sufficient ground for arresting the manager of the Banco Angola e Metropole the next day, the 5th December, 1925, and for conducting an investigation of the premises.

Bundles of new notes were found, some in numerical order and some rearranged. Comparison with the genuine notes at

the Oporto Branch of the Bank of Portugal revealed four cases of duplicate notes. The fact of forgery was proved, but its extent was still unknown.

The Bank of Portugal took prompt action. The forged notes were all 500-escudo notes, with a portrait of Vasco da Gama in the design. A notice was issued on Monday the 7th December, calling in all the notes of that denomination and design, and offering in exchange other notes not open to suspicion. The Government sanctioned the exchange being made up to the 26th December, and by that date very nearly all the suspect notes, both genuine and forged, had been withdrawn.

Among the notes withdrawn, 135,318, with a face value of 67,659,000 escudos, were definitely proved to be forged by certain small distinctive marks which showed that they had been printed from plates which had never been used for genuine notes at all. Expert scrutiny subsequently found means of distinguishing even those which had been printed from the same plates as genuine notes, and the total of forged notes withdrawn was placed at 209,718 with a face value of 104,859,000 escudos, or £1,092,281, at the rate of 96 to the £1. The number seized without ever getting into circulation was 363,602, so that 6,680 remained unaccounted for.

The Bank of Portugal sued Messrs. Waterlow for damages in respect of the redemption of the forged notes. The courts had no difficulty in deciding that Messrs. Waterlow were liable. They had committed a breach of an implied term of their contract and it was not even necessary to prove negligence. But when it came to determining the amount of the damages, doubts were evinced which were mainly connected with the special position of a central bank of issue.

In the first place, was the Bank justified in honouring the forged notes at all? All the judges agreed that, so long as the Bank had no means of distinguishing the forged notes from the genuine, they had no alternative but to honour both. It was contended on behalf of Messrs. Waterlow that the Bank could readily have obtained from the firm within a few days information enabling them to distinguish all those forged notes which had been printed from the later plate. The distinctive mark was a small letter at the corner of the design, which the Bank cashiers could have read with an ordinary magnifying glass.

Both Mr. Justice Wright in the King's Bench, and the Court of Appeal ruled that any of these distinguishable notes that had been exchanged after the interval within which the necessary

information as to the distinctive marks could have been obtained, ought to be excluded from the claim for damages. There was some difference of opinion as to the length of the interval, but that is a matter of detail.

The House of Lords decided otherwise. They allowed the cost of exchanging *all* the forged notes up to the 26th December, 1925, the interval prescribed by the Government for the process, and ruled that the relatively negligible amount exchanged after that date were honoured as an act of grace by the Bank. (As they allowed a part of the assets recovered from the forgers to be set against the notes exchanged after the 26th December, the House of Lords in effect allowed even these to be included in the claim.)

The ground for undertaking to exchange the forged notes at all was the danger of discredit of the currency and consequent panic. That was a matter of public interest on which it was for the Government and not for the Bank of Portugal to take the responsibility of deciding. Had the public interest not been in question, the Bank might have invited holders to deposit their 500-escudo Vasco da Gama notes for a suitable period in order that after scrutiny the genuine ones might be paid and the forgeries rejected. There might perhaps have resulted a claim by the Bank for damages in respect of its loss of credit and reputation, but that is a hypothetical matter which it is not necessary to pursue. The public interest required the complete relief of the holders of the forged notes, the Government took the responsibility of authorising the Bank to exchange them, and the House of Lords accepted the Bank's plea of the public interest. Since the genuine 500-escudo Vasco da Gama notes constituted one-sixth of the entire currency of the country, the consequences of distrust (which would probably have spread to the rest of the currency) would have been very serious indeed.

The Portuguese paper currency had been inconvertible into gold ever since 1891. The escudo had fallen from its old parity of 4*s.* 6*d.* to 2½*d.* Counsel for the defence argued, as Mr. Justice Wright put it, that the Bank had suffered no loss because it had simply exchanged pieces of paper which were not convertible into gold for other pieces of paper which were also not convertible into gold. This contention Mr. Justice Wright would not allow. "In Portugal," he said, "the notes were the currency of the country. They would purchase commodities, including gold. They could buy foreign exchange, including sterling or dollars or any currency which was convertible. They could do that

because they had behind them the liability of the Bank of Portugal."

In the higher Courts a minority of the judges took the contrary view, and wanted to let off Waterlows with a liability for no more than the cost of printing new notes to take the place of those withdrawn (estimated at £8,922).

On one point of principle Mr. Justice Wright was, I think, in error, that is to say, in arguing that the notes "had behind them the liability of the Bank of Portugal." An inconvertible legal tender note is not a *liability* of the issuing bank at all, except in the sense that for accounting purposes it must be entered among the liabilities in the balance sheet. It cannot be "paid" because it is itself the means of payment. The judges appear to have taken for granted that a bank which issues legal tender notes is obliged at any rate to go through the form of "paying" them on demand by handing out one note in exchange for another. But I venture to doubt whether that is so, either in Portugal or in England or anywhere else. If the bank of issue accepts one of its notes from a holder, it simply becomes indebted to him for the amount, and is thereupon able to discharge the debt *with the same note.* Moreover, the bank of issue is under no general legal obligation to receive its own notes at all except in payment of debts due to it, though of course it may be obliged by express statutory enactments to pay out new for soiled notes, or small denominations for large, for the convenience of the public.

In the case of the Bank of England, notes take the form of promises to pay. But that makes no difference. The notes for £1 and 10*s.* are legal tender in payments by the Bank, and the words "I promise to pay" are merely ornamental so long as that is so. They signify nothing more than the aspiration of the Bank of England to return to the use of gold coin as hand-to-hand currency at some time in the future. The notes of the Bank of Portugal (like those of most Continental banks of issue) contain no such formula. They do not even pretend to be debts, but are simply money.

There is thus no liability incurred by a bank of issue when it issues inconvertible notes. But that has no bearing on the question of the loss incurred when it issues notes and does not receive value for them. When that occurs, the bank is clearly and inevitably so much the worse off.

If it issues notes to redeem forgeries, it can maintain the assets received in exchange for its issues undiminished provided it can

increase the total currency in circulation by the requisite amount. That is an argument that deserves consideration. The effect of the increased issue may be to depreciate the currency. But Lord Warrington pointed out in the House of Lords that the Bank of Portugal did not attempt to prove that they suffered loss directly or indirectly by the increase in the currency and the consequent depreciation of its purchasing power, or by injury to their credit or interference in their relations with the Government.

Their note issue was limited by law. In 1925 the note issue included 1,640,000,000 against advances to the Government at a nominal rate of interest, and a "commercial issue" which was subject to a maximum limit of 195,630,000 escudos. At the time the forgery was discovered the commercial issue amounted to 64,000,000. The forged notes had displaced a corresponding amount of genuine notes and so encroached on the commercial issue. The exchange of notes, which was contrary to law in that the good notes were issued against no backing, made the encroachment manifest.

The commercial issue was of course the profitable part of the note issue, and had this encroachment upon it remained unrelieved, the loss would have been obvious. But legislation soon followed extending the Bank's power of issue. A decree of 19th July, 1926, authorised an issue of 100,000,000 escudos to be repaid out of the sums to be received from Waterlows, and a further addition of 100,000,000 to the commercial issue. (A further sum of 125,000,000 to be used in colonial development does not seem to have constituted an addition either to the advances to the Government or to the note issue.) Thus the Bank was empowered by law to issue pieces of paper in exchange for pieces of paper. Where then was its loss?

I do not think this line of argument can be sustained. The note issue being limited by law, it cannot be assumed that in extending the limit the legislative authority (in this case the Government acting by decree) was guided by any other motive than the public interest. If the public interest dictates the amount of the currency, then the profits of issue are correspondingly limited. Any encroachment on the assets by which the issue is backed and from which the profits are derived is a dead loss to the issuing authorities.

It may perhaps be objected that in the case of Portugal the legislative authority avowedly did *not* determine the extension of the note issue according to the public interest. Alongside the more

permanent increases was one of 100,000,000 which was expressly redeemable out of the damages to be received from Waterlows. It was a *temporary* extension. It was presumably in excess of normal requirements, and its inflationary effect would be none the less on account of its temporary character.

But it is in any case a mistake to suppose that a bank of issue necessarily *can* recoup itself for its losses by increasing its issues. Apart from any gold and foreign exchange that it may hold, its assets are themselves expressed in the national currency unit and are subject to the same depreciation as its note issue. Banks of issue are not usually allowed to profit by an addition to the currency value of their gold holdings through depreciation, and it is unlikely that such other "real" values as the bank might hold would be enough to safeguard its private capital against depreciation.

A court of law may sometimes legitimately proceed on the assumption that money remains invariable in value. But it could hardly adhere to that assumption if it were at the same time supposing that the issuing authority was free to increase the supply of currency at its discretion.

It is not easy to formulate the monetary policy of Portugal with precision. Up to 1924 the currency had been rapidly depreciating and the escudo touched its minimum gold value of 2·8 cents (U.S.A.) in July 1924. By July 1925 it had recovered to 5·1 cents, and at the time of the discovery of the forgeries in December 1925 it had been pegged at that rate or about 96 to £1 for five months. The pegging was effected by exchange control rather than by convertibility. Nevertheless, the rate prevailing in the illicit open market did not differ much from the official rate. The official rate was modified to 99 to £1 in 1927. In the course of 1928 the open market rate, after fluctuating rather wildly for a short time, was stabilised at about 108, the official rate becoming merely the rate at which a certain portion of the foreign exchange derived from the export trade was requisitioned by the Government.

At last, in June 1931, the exchange was stabilised by law at 110 to £1.

Whatever the precise significance of these measures may have been, they at any rate imply a serious preoccupation with the exchange value of the currency and a desire to guard against a recrudescence of depreciation. And there is no evidence to show that the extension of the issues in 1926 either was intended to allow a further depreciation or actually had that effect. In

fact the note issue did not vary materially in the period 1925–7, as the following figures show:

Note Issue.

(Millions of escudos.)

Dec. 1924	1763
Dec. 1925	1821
Dec. 1926	1854
Dec. 1927	1857
Dec. 1928	1976

It was only when a stable free open market rate was attained in 1928 that the note issue increased to any material extent.

The Portuguese authorities were pursuing an eminently sane and rational monetary policy. Their methods may not have been above criticism, but any device for compensating the Bank of Portugal for its losses by a bit of inflation would have been flagrantly inconsistent with that policy. The "piece of paper" argument was utterly out of place.

The upshot would seem, therefore, to be that justice was done. The House of Lords rejected all the fallacious arguments, and arrived at the correct decision.

If the view of the dissentient judges makes some appeal to common-sense, that is perhaps because it is hard on the manufacturer whose scale of financial operations is based on the mere cost of production of the notes to be exposed by an accident to a liability of an entirely different order of magnitude, arising from the face value of the notes. A fraud of this kind is an accident. There may be negligence. But even if Messrs. Waterlow were negligent, that was not part of the case. It was not material to their liability for breach of contract. Consequently, the fraud may be regarded as a mere accident, and the question was, who was to bear the loss? Was it to be those who manufactured the notes or those who used them? The ground for placing it upon the manufacturers was that it was they whose precautions (whether negligently taken or not) failed to prevent the fraud. A manufacturer of explosives assumes a certain liability for accidents, and he cannot pass it on to his customers on the ground that they procured him to manufacture the dangerous product. The apparatus for the manufacture of bank notes has an explosive quality, and whoever undertakes the business does so at his peril.

R. G. HAWTREY

THE INDIAN INDUSTRIAL WORKER

Although it is only eighteen months since the Royal Commission published its Report on labour conditions in Indian industries, it would seem that their work has been almost forgotten both in India and in England. Trade depression and the difficult political situation afford an excellent excuse for business men, politicians, and officials to shelve what must always be a very awkward problem. The writer has recently spent some months examining conditions in the Calcutta area as adviser to a firm with a number of jute and paper mills, and in this capacity it was necessary to make a careful study of such work as is being done in various parts of India. It was difficult to avoid the impression that the improvements which have taken place during the last few years are of the most superficial character, and that from some points of view the situation is growing definitely worse. It also seems doubtful whether we have a sufficiently intimate knowledge of the industrial worker and his needs to frame an adequate policy, even if there was the will to take drastic action. It is extremely difficult to get any information on a number of questions, and the Report of the Labour Commission contains some doubtful generalisations on very scanty evidence.

Although India is now reckoned amongst the eight largest industrial countries of the world, at least three-quarters of her factory development has taken place during the last thirty years, and almost the whole of it during the last half-century. In 1892 her textile industries employed some 170,000 hands, while to-day the number working in jute and cotton mills is a little under 700,000. The one large steel works, at Jamshedpur, was only established in 1907. It may also be necessary to remind some European readers that the total industrial population of about a million is quite insignificant compared with India's 360 millions, being less than a third of the average yearly increase since 1921. These two points must be emphasised, because of their influence upon the labour question. Indian textile manufacturers, concentrating on a few simple products and buying their machinery when it was comparatively "fool-proof," did not feel it necessary to recruit their labour from those classes which might be expected to have greater manual dexterity or more intelligence. They

made no attempt to draw upon the hereditary weaving caste. If they placed their mills near large centres of population—about half of India's industrial workers are in or near Calcutta and Bombay—it was because the transport facilities were best at these ports. Even when the cotton industry began to spread to other cities, like Ahmedabad, Sholapur and Surat, the factory sites were chosen without any regard for the industrial population which must ultimately settle round them. The owners started with such casual labour as they could obtain in the neighbourhood, and this was supplemented by landless men and women of a rather "jungly" type who drifted into the area, Bilaspuris, Chamars, etc. When these proved insufficient, the mills employed agents to go up country and recruit men and women from the villages and smaller towns. A heterogeneous collection drawn from the superfluous population of the villages, drifted down to Calcutta and Bombay, and settled as best they could in the squalid *chawls* or *bustis*, which already existed, or which neighbouring landlords hastily constructed. It was only at a later stage that the mills, still suffering from a shortage of labour, found it paid them to build their own lines.

Most of our present-day evils followed inevitably from this casual method of collecting labour. A very few firms, like Messrs. Binny at Madras and the Tata Steel Works at Jamshedpur, have appreciated their responsibilities and attempted to lay out decent lines for their workers and arrange for certain facilities. More recently the Empress Mills at Nagpur have taken up a large piece of land, and have begun to build a model village. These are exceptions. The overwhelming majority of mill-owners have always considered that their labour conditions were satisfactory so long as they could fill any vacancies which occurred. They were careful about working conditions inside the factory, and on the whole these compare favourably with those in many parts of Europe. Once their workpeople had left the mill, the mill-owners felt that their responsibilities were ended, except that they insisted upon any lines which they might have built being kept in a sanitary condition. Very few mills keep any record of their workers, but there is sufficient evidence to show that the attitude of the employers and the uncomfortable conditions under which the operatives live are reflected in an extraordinarily rapid turn-over of labour. The Angus Jute Mill has probably the best lines for its employees in the Calcutta area, and it certainly has the best medical service, but the labour turn-over is about 12 per cent. *per month.* In some mills in which the writer was interested and

instituted the keeping of records, the figures were even higher. It is clear that Indian industrial labour has not yet settled down. It is still "casual" labour, drifting from mill to mill, but also escaping whenever possible from the mill area.

The Labour Commission, appalled by the squalor of the *chawls* and *bustis*, took the view that this migration from the mill area is advantageous, and seemed to envisage it as a permanent feature in Indian industrial life. The writer was forced to an almost exactly opposite opinion. Although it is obviously a good thing for the worker to leave the mill area for a holiday, it is impossible to institute any real improvements when the workers are not settled round their mill or workshop. The problem is not unlike that which faced the earlier workers in the London dock area. They found it impossible to do anything until labour had been "decasualised." The trouble in India is that the average worker from up country goes to the mill area in the same spirit as a European peasant might serve his term as a conscript. It was the unwanted villagers who answered the call of the *sardar*. The younger sons of families too numerous for their few paternal acres. Village servants and craftsmen from areas where work was scanty. Most cultivators are in debt, and their younger sons, leaving their wives and children with their brothers, would set off to the town with the idea of earning money rapidly, and coming home to pay off the mortgage, and live happily ever after. The *sardars* naturally painted a rosy picture of the ease with which money could be made. It was also necessary to find women for mill work. Some of the lower castes took their wives with them, thereby practically ending their connection with the village, but the *sardars* also collected a number of widows and women of doubtful position. The motley collection of human beings found themselves transported into what was for all practical purposes a foreign country. They were robbed by their *sardars*, and by the landlords who gave them a little floor space on which to sleep. The men settled down to an existence which has all the worst features of barrack life without its discipline or cleanliness. The women, about a fifth of the mill population, soon found it necessary if they wanted to avoid a life of complete promiscuity, to take temporary "protectors" from amongst the better paid workers.

Recruiting for the mill areas has now almost ceased. The mills and the engineering works enjoyed an enormous boom after the war, and there has been no increase in employment since 1925–6. There has, however, been a steady rise in the rural population, and the mill-hand who returns to his village. is

welcome only while he has money to spend. He is seldom wanted as a labourer, and the yearly migration is now almost entirely due to a desire to see his wife and family, to escape from a dull and uncomfortable existence, and in the case of those from agricultural families, to ensure that their rights are still recognised. We therefore have to-day an industrial population which is almost stable, but which is completely disorganised and has all the worst features of casual labour. Very few workers look upon their *bustis* as their home, but there is little doubt that each year a larger proportion of them have practically dropped their connection with their villages, and there are now thousands of children growing up in the mill areas. The recent slump, which is most marked in the jute area, has also tended to stop migration. Workers are more afraid of losing their jobs if they go away, and they find it difficult to save enough to take what is really a holiday.

We seem therefore to have reached a transitional stage in a history which reflects very little credit either on the English or the Indian business men. They have collected round their mills and workshops a population of about a million men and women. These were lured into the industrial field through vague promises made by the agents of the mill-owners, but for which the latter now disclaim any knowledge or responsibility. During a period of immense prosperity one could count on the fingers of two hands the firms which have made any serious attempt to gather round their factories a steady, settled and decently housed working population. It seems almost impossible to persuade employers that it would be a sound investment to spend money and energy on such an end. They seem content with the present system, which gives them a lowly paid, but constantly shifting set of mill hands. This is especially true of the jute industry, which for two generations has been engaged in making two simple products by the same methods, and with practically the same machinery. Many of the jute mills have repaid their capital ten to twelve times in the form of dividends since the war, but their workers are still housed in what can only be described as the "barracks cum brothel" manner, while the standard of wages paid during the present slump is often far below the subsistence level. As a result of these conditions the mill population is riddled with disease. A conservative estimate for venereal infection would be 75 per cent. Child mortality is very high, and all those illnesses usually associated with bad living conditions are very rife. On the Calcutta side there are large numbers of lepers working in the

mills. A single mill, chosen at random for experimental treatment, produced a hundred cases.

The writer is convinced that palliative measures, such as those which may be roughly described as " welfare work," are of very little value if undertaken before the main problems of housing and " decasualisation " have been properly tackled. So long as many workers regard their time at the mill or workshop as a purgatory to be endured before they can escape to their villages, they are bound to remain an easy prey to the unscrupulous employer. Until the operatives bring their wives and children and settle near the mill, all efforts to increase their self-respect, free them from debt, and improve their physical and social conditions are bound to be handicapped from the start. A little practical experience in trying to institute the simplest of reforms would have persuaded the Labour Commission that they were wrong in giving even a vague support to the idea that workers should remain closely connected with their villages. Force of circumstances will in the end bring about the growth of an urbanised industrial population. It already exists to a considerable extent, for the lower castes have often brought their wives with them, and there is a high birth-rate amongst the unmarried women workers. The slump and the large amount of unemployment have also made it difficult for men to leave the industrial areas, for " short time " makes it difficult to save money for the journey. Unfortunately this tendency has not yet been appreciated even by the better type of employer, and the migratory nature of their labour is invariably used as an argument against providing proper married quarters to which Moslems and the better caste Hindus would be willing to bring their wives.

The re-housing of Indian labour will have to be undertaken sometime in the next two decades, and each year that passes adds to the population which is growing up under the worst of slum conditions, and with a fully developed slum mentality. Perhaps the most distressing feature of post-war India are the riots which have taken place in Bombay, Calcutta, Cawnpore, Sholapur, and other areas with large industrial slum areas. The trouble may start from some political or communal fracas, but it rapidly turns into systematic looting by gangs. These gangs, grouped naturally according to religion or caste, are formed amongst the floating population of under-employed workers, mostly younger men bred in the squalor of *bustis* or *chawls*. Slum clearance can only be carried out effectively by building new villages and towns in which the workers, most of whom retain something of the countryman's

outlook, will be able to find some of the amenities and atmosphere which they need. The essentials are some privacy and seclusion for their wives and families, and houses, standing in their own plots, which are rain-proof and moderately cool. It is also best to provide separate washing and lavatory arrangements. That this can be done at a moderate cost has been proved by the Empress Mills at Nagpur, and their scheme provides quarters which are quite as cheap as some of the solid concrete lines which were run up after the war. The main difficulties are choosing and acquiring of suitable sites, and the provision of capital. Government assistance and a new Land Acquisition Act are needed for the first, and a new outlook amongst employers for the second. If the work is to be done properly a vast amount of town planning will have to be undertaken, and in some cases it would entail the moving of factories which are so situated that it is impossible for their workers to be adequately housed.

The "decasualisation" of labour is a much simpler task, and is made easier by the fact that there is now abundance of labour in most of the industrial areas. Several employers in different parts of India have already learnt that it is worth taking some trouble to keep a decent worker tied to your mill. Under the old system the worker came to the mill under the ægis of the recruiting middleman, who usually got the unfortunate villager still further under his power by giving him or her an advance on wages. No records were kept of the workers, and there was no real contact between the workers and the staff. A Government Rifle Factory was one of the first to start a Labour department, and the example set by Colonel Lenfestey has now been followed by several commercial firms. Slowly, far too slowly, the evil traditions of the recruiting *sardar* are disappearing, and the mills have an admirable opportunity during the slump to re-organise their methods of controlling labour. Once this has been done, and proper records kept of all the mill-hands, it is comparatively easy to institute other schemes to help the workers, and give them an interest in the mill and also a greater feeling of self-respect. The writer, for example, found that there was considerable demand for savings banks in which workers could accumulate a portion of their wages. The possibility of running co-operative societies as a method of relieving workers from the ubiquitous money-lender is discussed by the Labour Commission. Experience, however, suggests that this is only practical when, as in the case of paper mills, the population is more stable and the monthly labour turnover far smaller than in most textile mills.

It is, unfortunately, a weakness even amongst the more enlightened employers to prefer to help their workers by direct means, such as the provision of educational or other facilities, rather than to try to improve their status by better wages and more security. There is "more to show" for the first method, and it is also cheaper. Apart from better housing, the most crying need would seem to be for a minimum wage, and insurance against sickness and unemployment. Family budgets are extremely difficult to draw up accurately in India, but if we take as a subsistence level the bare cost of the simplest food plus 75 per cent. it would seem that most of the women workers, and a considerable proportion of the men, are getting wages below this standard. There is little hope for concerted action amongst the employers, for some will always be found who take the line that "if the workers do not like it, they can go back to their villages." This is only partly true, even of the highest paid workers, while the majority of female and lowly paid workers have lost all real connection with their villages, and if they returned without any money would not be accepted into the village system, and would certainly have no land to cultivate or any claim to sustenance. The provision of a minimum wage and of insurance against sickness and unemployment will have to be forced upon Indian firms by Government action.

The outlook for the future is not very cheerful. The money which should have been spent on improving housing and living conditions has been dissipated in paying absurdly high dividends. It may be some years before there is another wave of prosperity. It is also doubtful whether, even with returning prosperity, there is any real desire amongst employers to improve conditions. Most of the Europeans are birds of passage, and their attitude is too often that "it will last my time." The uncertainty of the political future makes them loath to spend money in ways which do not bring an early return. The Indian owners, with a few honourable exceptions, are content to make quick profits. Few of them have the idea of building up a solid family business. From the workers themselves there is not likely to come any real pressure, either for higher wages or for better conditions. These villagers, uprooted from their ordinary surroundings, broken into little groups by differences of dialect, caste or religion, are never likely to be a very hopeful field for the conscientious trade union organiser. If the mill-owners had sought their labour among the more highly skilled craftsmen, these might have retained in the mills some of the very ancient organisation which has existed for

centuries amongst the weavers in cities like Ahmedabad. But the mills are full of men like the Kolis, who are a fishing caste, of North-country Moslems, and of semi-aboriginal or unclean castes. These have no such traditions behind them, and now that there is a definite surplus of labour in most industrial areas there is even less chance of effective organisation. Also for many years the formation of bogus trade unions has been an easy method by which Indians of the professional classes could win their political spurs, and there have been too many occasions since the war when strikes have been organised for purely nationalist purposes, and the workers abandoned when it suited the politicians' convenience.

In the end the real incentive for improvement will have to come from the Government, and here again it is difficult to be optimistic. The impending changes are acting as a blight upon the existing authorities, and one wishes at times that the parable of the Unjust Steward could be read every Sunday at Delhi and Simla. The future is very uncertain. No one expects much effective labour legislation from the Congress Party, which for some years has been financed by the Ahmedabad mill-owners, and contains a very considerable element of urban landlords and money-lenders. One cannot foresee much immediate legislation in the nature of drastic land acquisition, minimum wages, or control of money-lending. It is however unwise to dogmatise about the patterns which democracy may cause to appear in the Indian kaleidoscope.

G. T. GARRATT

MR. WELLS'S WEALTH OF NATIONS [1]

It is permissible to term Mr. Wells's book a twentieth-century Inquiry into the Nature and Causes of Human Wealth. Almost certainly a young man could not have written it. He could have furnished, of course, the "facty" part, but he could not rise above his facts so confidently, or strike out generalisations which reflect so clearly a long experience of life. And the same wisdom of the old hand is visible in the irony of Adam Smith. The mind of both is richly stored, and they put facts in their proper place: that is to say, they reflect incessantly upon the significance of things. Their canons of style, indeed, are vastly different. There is between them even more than the difference between Gibbon's *Decline and Fall* and the *Cambridge Mediæval History*. The one is reserved, he is always within his powers. The other is tumultuous and sometimes above himself. Adam Smith works with the finer brush. Each "perhaps," each "however" tells. But Mr. Wells has a Rabelaisian affection for strings of nouns and verbs. Adam Smith quotes his authorities with meticulous care, but Mr. Wells is so impressed with the contents of the *Encyclopædia Britannica* that he finds individual authority a second best, something suspiciously close to unpardonable scholarship.

However, for a treatise on the grand scale both have a unique qualification. They are not professional economists. The one is a philosopher, the other—if he will allow the term—a sociologist. They are therefore spared the necessity of using jargon. For jargon is the certificate of the qualified professional—an incubus, perhaps, but submitted as proof that the writer is not a quack. And neither of them suffers from that artificial horror of history which is paraded in such tiresome fashion by so many theorists of to-day. They blend history with theory. They do not, indeed, go so far as Weber or Sombart and claim that through general history they will reach theory. Rather, they employ history as background for suggestion and illustration, and as a reinforcement of their judgments on "the hang of things." What they offer, in fine, is a survey of economic life, with two insets, a theory

[1] H. G. Wells: *The Work, Wealth and Happiness of Mankind.* London: William Heinemann. 1932. 850 pp. 10*s.* 6*d.*

of wealth and a fighting programme. Adam Smith's fight is for freedom in the name of natural justice and for the abolition of vested interests; Mr. Wells's fight is for social control in the name of efficiency, and he desires to install the engineer. In the reconciliation of programme with theory Mr. Wells has the harder task. *Laissez-faire* economics and *laissez-faire* policy march well together. But if Mr. Wells is a free-trader, I really do not see why. He hates Chauvinism, but loves controls. Yet quotas and buying boards are a greater threat to freedom of commerce than a straightforward protective tariff. Is he then for international control? Ultimately, perhaps, but his present faith in Geneva is so very dim that Geneva is altogether inadequate for him, the man of action. He seems to feel that there is more chance of lecturing the world into internationalism by such a book as his than of taking it into internationalism by organs of international government. He is, I suggest, at bottom, less cosmopolitan than either Castlereagh or Adam Smith. His spectacles are stout English, as perhaps one should expect of a scientist who can never forget South Kensington. Adam Smith's classical education precluded insularity such as this. Thus to him England is just one of many colonising powers; behind the culture of Western Europe lie the cultures of the Old World and the East. But Mr. Wells jumps from pre-history to the latest periodicals in the English tongue.

It is, however, Adam Smith, the cosmopolitan, who views wealth as a problem of the nations. The key to his genius, as lovers of his treatise concede, is the Third Book, "Of the different progress of opulence in different nations." There is nothing like it in the work of his successors. It was too subtle for their hard minds, too characteristically of the eighteenth century, as majestic and as lacking in utility as a nobleman's park. The equivalent of this in Mr. Wells's work is the opening sketch of economic technique. For a history of nations in their march to opulence he substitutes a history of substances, from mud huts to steel skyscrapers, from candlelight to electricity. "See the Conquering Hero comes!"—not Cæsar or Napoleon, but Watt and Kelvin, Edison and Ford: *Homo Sapiens* conquering distance and clothing and food.

Because he fears the nations for their Chauvinism, his approach to the problem of empire is oblique. He envisages it as economic imperialism, which being interpreted is the exploitation of the weaker peoples by buccaneering powers. For empire in a favourable sense he finds no place. Adam Smith's approach is here

richer, as well as more artistic. We pass from Book III, Of the Nations, to Book IV, Of the Empire. From his devastating account of the cruelties and mismanagement of the colonising powers he emerges to a noble plea for imperial democracy and imperial federation. All this would leave Mr. Wells cold. He is more interested in cosmetics and advertisement than in the possibilities of Empire. Having trounced Putumayo and the Congo, he passes on.

Great men must be allowed their little weakness. Adam Smith's is contempt for the joint-stock company, in particular the privileged trading company of East India. Mr. Wells's is abuse of the entrepreneur until and unless he leaves his fortune to the endowment of education or research. Somehow or other, in the cosmogony of Mr. Wells, the entrepreneur evolves from the warrior of feudalism; and he ends quite emphatically as the financial crook. Mr. Wells involves himself in this sort of thing by dividing mankind into three "personas": the peasant, selfish, lustful and greedy, who passes by dispossession into the proletariat of the towns: the nomad, now an Alexander, now a Captain Kidd and now a barrister or a Jay Gould, rapacious scoundrels one and all; and finally, the cleric, who flowers into the Civil servant, and has his niche in the Hall of Fame, which is the London School of Economics. (If we expel the patriot by the front door, he creeps in, it would seem, by the back.) Man is but human, be he of 1776 or 1932. Travesty is a relief to travail. These creators of the *magnum opus* must be allowed to run amok once or twice in their long career. But while Mr. Wells dethrones the entrepreneur, he is not what I should term an "associationist." His grouped flats, with service laid on, are luxuries of individualism. In this way you avoid quarrels with the cook. But on common striving, in which the furniture is secondary to the cause, he has little to say. He finds the trade union reactionary, the co-operative society unimaginative and dull, the town councillor blighted by the essential inadequacy of democratic institutions. The group within the group, the College within the University, the political party within political society, the fellowships of religion and freemasonry, of boy scouts and Toc H, appear to leave him cold. Artists and actors are not colonies of life, but stray creatures underpaid and looted by a profit-seeking capitalism, and so this twentieth-century socialist almost joins hands with the father of *laissez-faire*. The one is a classic, the other a modern; and mediævalism is repugnant to them both. The one sets the individual above the State, the other salvages him by State-planned

engineering. There are no half-tones, no mysteries for them. Adam Smith and Mr. Wells are both unfitted to pronounce on the ultimate nature and cause of human happiness. Adam Smith, by isolating wealth, recognised his limitations; Mr. Wells unfortunately incorporates happiness into his title. But from cover to cover there is no trace of a quest for that River of Life, which Kim and his lama sought on foot through the gorgeous inefficiency of teeming India. Mr. Wells could only take stock of lamas if they were listed in the exhibits of the Lahore Museum.

Marshall narrowed the conventional range of economic principles by postponing money to a separate volume. Money, however, is the economic core. This Adam Smith and Mr. Wells recognise, though neither reach it at a single bite. Mr. Wells has a central chapter, which would be the hardest in the book, were it not for the fact that the approach is at second-hand. It is intelligent comment on the subtleties of others in the atmosphere of current controversy. Adam Smith separates analysis from controversy by a characteristic device. He hides it away in his Book I of Principles in an historical digression—the famous digression on silver; for here the fundamentals of money can be dispassionately examined. What is the best measure of value on the evidence of the centuries—corn, labour or the precious metals? And he arrives at no certainty. Then in Book II he describes the apparatus of money and banking; and finally in Book IV enters the arena of controversy with a denunciation of the preposterous importance assigned to money by the Mercantilist doctrine of the Balance of Trade. Mr. Wells is less discreet. In the chapter on money we have principles (or reference to principles) in one paragraph and controversy in the next. He gets, however, in a subsequent chapter a kind of detachment by surveying in biography the preposterous accumulations of the money-kings, including Hetty Green, America's miser queen.

Now it is clear enough where sovereignty resides in the *Wealth of Nations*. It lies with the Invisible Hand, which is immanent in the automatic operation of a money economy, with its obedient acceptance of market price. But Mr. Wells has no intention of worshipping a golden cube of 38 feet; and still less of installing in authority the strongest of the money kings. Who then will rule in his economic dominion? I fear the answer is the expert Civil servant. But is it not of the essence of Civil servants that they should have a master? If Westminster must go by the board (and of this there is for Mr. Wells no manner of doubt), what remains but financial fascism? Let us take care that in

sighing for a Mussolini we do not accept a dictatorship of the popular press. Politics, like nature, abhor a *vacuum*.

There are topics in the treatise of Mr. Wells which find no place in the *Wealth of Nations*. One is Women. All that Adam Smith has to say is that women's education is excellent in consequence of the absence of public institutions. "They are taught what their parents or guardians judge it necessary or useful for them to learn; and they are taught nothing else." In Adam Smith's day women were within the economy of the family. But to-day they are partly within and partly without; and, as Mr. Wells shrewdly observes, "a large part of the increased industrial employment of women has nothing to do with the unemployment of men: it is a transfer of women from domestic to industrial work, because work that was formerly done in the home, laundry work, sewing, baking, urban lunch and tea service, is now supplied outside."

A second is leisure. There was no problem of leisure for Adam Smith, because at that time there was no leisure for the mass. The Industrial Revolution in its first phase—and this alone, Adam Smith knew—quite clearly augmented the demand for labour. Scarcity of labour encouraged invention, and the machinery thus invented worked its labour to sickness and death. Mr. Wells, writing after nearly two centuries of industrialism, has to take stock of a new and formidable side of it, namely technological unemployment and the unwanted leisure it entails. He is very good here. Man and the monkeys play; and industrial man finds in sport a compensation for the tyranny of machine-serving. And so the service of sport is a great modern industry, coeval with the man-dislodging epoch of power production. Here is a phenomenon even more preposterous than the worship of the Golden Cube. At last our technique has improved so far that it is technically possible for millions to play; and yet, because of the way the release has come, it is not a boon, but a nightmare.

Thus far we have said more about differences than about similarities. But the final effort of both embraces the same subject; and that subject is Education. Why did Adam Smith incorporate in his final Book V a long discussion on Institutions for the Education of Youth and Religious Instruction? Formally, of course, because they were, or might be, Expenses of the Sovereign. But that is merely the classical manner. The real function of the discussion is to effect a balance with Book I. Book I opens with the economic advantage of the division of

labour: Book V corrects its social disadvantages. But there is more to it than this. Viewed in the large, the *Wealth of Nations* is an appeal from Old Prejudice to New Light. Hitherto bias and animosity have regulated the affairs of nations. Now let Reason have her chance; and how can reason prevail without education? Along this rope Bentham links with Adam Smith, and Owen with Jeremy Bentham. Mr. Wells's hope is equally high, though he makes his approach rather differently. Eugenics cannot save us. (In leading up to a solution that we should find natural in a scientist, and then suddenly pulling away, he is quite in the vein of Adam Smith.) For "we cannot breed to a particular quality, because we want a complex of qualities." "We must tolerate much that is odd and weak lest we lose much that is glorious and divine." (The lama rubs his eyes in wonderment; "My *chela* shall go to school with Sahib Wells.") Because eugenics can not do it, we must build on education. Mr. Wells, as an educator, is so full of ideas and devices that we despair of inventing a curriculum which would satisfy him. But at any rate there must be no priests or dons. For priests say, "Make the sign of the cross and you may sin in comparative peace"; and dons are sloppy and defensive. (Lord Rutherford and Sir Joseph Thomson are only at Cambridge by mistake, and Mr. Keynes really belongs to London.) And at any rate there must be encyclopædias by the yard and museums by the mile. This is Mr. Wells's way of saying that we must be scientific and progressive, and conceive of education as a force at work throughout the whole of life. Banded thus in a crusade of enlightenment, the new world of science and socialism will rout the "smart Alecs" around us and balance the budget of human happiness.

This question may now be posed. Are we so satisfied with our Principles that we can afford to dismiss as unwanted a new approach to economics? I doubt it. To teach Principles to beginners is becoming not a steadily easier, but a steadily harder task. It is harder to-day than it was twenty years ago, and this perhaps for several reasons. In the first place, a giant in the person of Marshall bestrode the academic scene; and although he had his lively critics, the Cannans of this country and the Davenports of the United States, it was the custom to teach economics around Marshall, following and extending his way, or protesting with reasons against it. But we are coming to see that Marshall was at the end of a great period; and however valuable his method continues to be, his background and above all the way he tied his analysis to the Victorian virtues make him

for us an object of veneration rather than a present guide. In the second place, the currency disturbances, issuing from the War, have dislodged Principles from their old supremacy. We give to the Macmillan Report and the *Treatise on Money* many of the hours we once gave to marginalism and consumer's surplus. It is intriguing to think of economic science as having been jerked from its peace-time rut by the episodes of the War; and an historical parallel at once suggests itself. The Paper Pound of 1797 threw up Ricardo and the Bullion Committee. But there the parallel ends. For when Cash Payments were resumed, there was a resumption also of interest in the old fundamentals, in rates and proportions, in the relations between capital, wages and population, and the like.

Why was this? The explanation, surely, is that the nation came through a generation of war with a strengthened faith in *laissez-faire*. The country entered the war mainly individualistic, and came out of it entirely so; and after 1815 other nations deliberately incorporated in their stock of thought the political economy of Adam Smith. But in 1914 *laissez-faire* was waning; and if now it is not altogether dead, it is only because we dislike even more the stark cruelties of Soviet Russia. Without doubt the fundamentals of the capitalist order are questioned as they have never been before. And if the capitalist order goes, how much of our Principles goes with it? It is a much more serious challenge than that of Einstein to Newton. The new physics have not discredited Newton; they merely show that the mighty genius of Newton did not go the whole way. But shall we find ourselves saying one of these days, "Now I see that Marx was right"? I for one do not think so; and yet, when I venture to commend such things as consumer's co-operation and the public ownership of electric power, I find that the youth despises them—sugared capitalism it seems to them. They are as contemptuous as Marx, and murmur Russia.

The thought, therefore, comes to one that perhaps economics may have to abandon the notion that it is a progressive science and content itself with finding a solution for the exigencies of the day. It would then become much more like political science than it has been hitherto. It would comprise a history of theory, which is strictly relative in its truths, and an analysis of institutions of which no one is very proud. But economists will and must resist this; and one aid to them may be the kind of book which Mr. Wells, an amateur economist, has tried to write. For Mr. Wells has laid firm hold of this fundamental truth. You

want history and theory and fighting faith—all three separately and together. You want history, because history enables you to see the present in proper perspective; you want theory, because there is no alternative to brute force, except the exercise of the human reason; and you want a fighting faith, because otherwise you will sway helplessly between inaction and sensationalism, now doing nothing and now doing all too much. And when you have harnessed this trinity, you want to make them keep step. You want your synthesis. Mr. Wells offers his help here; and it is for us to take it, or to produce something better.

C. R. FAY

A NOTE ON THE LONG-TERM RATE OF INTEREST IN RELATION TO THE CONVERSION SCHEME

1. A REDUCTION of the long-term rate of interest to a low level is probably the most necessary of all measures if we are to escape from the slump and secure a lasting revival of enterprise. The successful conversion of the War Loan to a $3\frac{1}{2}$ per cent. basis is, therefore, a constructive measure of the very first importance. For it represents a direct attack upon the long-term rate, much more effective in present circumstances than the indirect attack of cheap short-term money, useful and necessary though the latter is.

2. Indeed the effect of the Conversion Scheme on the prevailing standards of long-term rate of interest, both in Great Britain and throughout the world, may be of more far-reaching importance than the relief to the burden of the National Debt, which can be taken as a symbol of the advantages which borrowers generally may be going to obtain. But this will only be the case if the effect of the Conversion Scheme is not just a flash in the pan, propped up by newspaper propaganda and patriotic appeal just long enough for the Treasury to attain its immediate object, but has more or less lasting *sequelae*. This is also important for the Treasury itself, since the opportunities for conversion are by no means exhausted by the present operation. The aim should be, therefore, to maintain market conditions favourable to a falling long-term rate of interest, not only whilst the conversion is in progress, but also after it is over. Early this year I ventured the opinion that there was no reason why the yield of British Government long-term securities should not fall to a $3\frac{1}{2}$ per cent. basis within the year. There is now no reason why they should not fall gradually to a much lower basis than this, and every reason in the world why we should wish them to do so. But to achieve this will require the combination of deliberate purpose with the organised co-operation of the principal factors in the market. The following are notes on some aspects of the situation.

3. It is important that the market should be supplied with securities of different types and maturities in the proportions in which it prefers them. If a particular type of security, such as Government stocks having no fixed date of redemption, are

in over-supply relatively to stocks with a definite maturity either of early or intermediate date, as measured by the relative strength of the demand for the two types, the former will tend to be a weak market, which will react unfavourably on long-term rates of interest generally.

Paradoxically the risk of this will arise if the Conversion is unduly successful, so to speak, under the influence of propaganda and patriotic appeal.* For the old War Loan has been widely held by firms and by individuals as a temporary or only quasi-permanent investment for funds which would or might be needed for other purposes perhaps at a definite, perhaps at an indefinite date, in the belief that it combined a high yield with less liability to fluctuate in capital value than strictly long-dated securities. Such holders may agree to convert, but the new War Loan will not suit their purposes equally well and they will incline to sell it when the first enthusiasm is over, unless they have been suited in the meantime with a security of a type more adapted to their purpose.

This object could be attained by offering to holders of assented, as well as of unassented, War Loan a short-dated bond at a lower rate of interest than $3\frac{1}{2}$ per cent. some time in the autumn or winter. Indeed, a short-term Bond issue would suit the Treasury in two ways. In the first place such bonds could, since this type of security is now in under-supply, be placed at a rate of interest well below $3\frac{1}{2}$ per cent. In the second place it would ensure a better market for the new War Loan after December next, and thus pave the way for further conversion schemes in due course. Indeed, it must always be to the interest of the Treasury to supply the heterogeneous requirements of the market with securities of different types and maturities in the optimum proportions so as to minimise the aggregate cost of the National Debt.

Popular opinion in relation to the Conversion is, as I interpret it, a peculiar combination such as could only exist, perhaps, in this country, of a keen desire to make the scheme an overwhelming success, both by personal and by communal action, with an unspoken conviction or at least a suspicion that the whole thing is in truth a bit of bluff which a fortunate conjunction of circumstances is enabling us to put over ourselves and one another, and that the new War Loan may be expected to fall to a discount in due course.

* Since the above was written figures have been published showing a very remarkable degree of success, and the resulting over-supply has in fact shown itself in some weakness in the price of the stock.

I am not sure that the authorities themselves are entirely free from an idea of this kind. Nevertheless I plead for a policy based on the opposite hypothesis. For I am convinced that the Conversion Scheme is anything but a bluff. A great reduction in the long-term rate of interest corresponds profoundly to the character and, indeed, to the necessities of the underlying facts, and it may even be a necessary condition of the survival of the existing financial structure of society. Nor is there anything in the attendant circumstances which need prevent our achieving it. But it will not happen by itself and must be pursued with deliberate purpose. For there is a large conventional or psychological element in the market rate of interest which needs firm and skilful management. The first error to avoid, therefore, is the premature over-supply of a particular type of security.

4. The second danger arises in quite a different way. It lies in the very great disparity, which has come into existence since the Conversion Scheme was broached, between yields on sterling securities quoted in London and yields on comparable securities elsewhere, especially in the United States.

In view of this, the Conversion Scheme would certainly have been impracticable in the form it has actually taken if we had remained on the gold standard. For it is the vice, as well as the virtue, of the gold standard that it links the money markets of the world rigidly together and is a preventative of individual action. The power of one centre, even of London, to move ahead of the rest was narrowly limited by it, and, if the gold standard were still functioning, we should have had to accommodate ourselves to the common world denominator of intelligence, capacity, courage and public spirit. Moreover the power of independent action, which we gained when we freed our currency from a common international unit, has been reinforced in the actual circumstances of the moment by the extreme distrust towards the United States which was felt until quite lately, and is still felt to-day though not quite so strongly, by most investors and financial institutions. And these considerations do not apply to the United States alone. There are few quarters of the world where, for the time being, the British investor is prepared to venture new funds except with the temptation of a much higher yield of interest than he can obtain at home.

Thus to a certain extent the London investment market can function as a closed system and move under local influences in its own orbit. Even so, however, I should surmise that the existing disparity of yields cannot long persist without putting

a great strain on the sterling exchange by stimulating a steady trickle of funds, if not a flood, to foreign markets. Since the extent of the disparity has not yet been realised except by the professional investor, the argument may be illustrated by a few examples of the quotations ruling on or about July 20 :—

(i) Commonwealth of Australia sterling 5 per cents. are selling in London at about 102. A similar dollar 5 per cent. War Loan is selling in New York at about 72, and even this price is the result of heavy buying from this side. Argentine sterling 5 per cents. are selling in London at about 64, whilst dollar 6 per cents. (of slightly longer maturity) are at about 42 in New York. Hungarian (League of Nations) sterling 7½ per cents. fetch 48, whilst the identical dollar loan stands at 28. Indeed over a wide field foreign bonds to-day are priced, for a given yield and security, anything up to 50 per cent. higher in London than in New York. Nor do exchange calculations enter directly into the above comparisons, since I am comparing securities of which both capital and interest are payable in sterling with similar securities of which both capital and interest are payable in dollars. Such wide disparities have never existed before, and it is unlikely that they can last. But meanwhile the whole burden of new borrowing, if and when there is any, will fall on London, whilst apart from new loans, there will be a steady stream of buying from London on the New York market. It would be imprudent not to expect this.

(ii) The above samples relate to foreign Government loans. But much the same thing is true of well secured industrial and Public Utility fixed interest securities in Great Britain and the United States respectively, as is shown in the following tables :—

Interest Yields in U.S.A.[1]

	20 High-grade Industrial Preferred Stocks.	60[2] Representative Bonds.
June 1931 . . .	5·85	4·45
June 1932 . . .	8·52	7·03
July 20, 1932 . .	8·23	6·48
Aug. 3, 1932. . .	7·59	6·06

[1] Taken from Standard Statistics.

[2] 15 Municipal, 15 Industrial, 15 Railroads and 15 Public Utility.

Interest Yields in Great Britain.[1]

	British Govt.	Home Corporations.	45 Representative Debentures.	90 Representative Preference Shares.	5[2] Dominion Bonds.
June 30, 1931 .	4·16	4·43	5·72	6·43	5·26
Dec. 29, 1931 .	4·85	5·01	6·18	6·75	6·18
June 28, 1932 .	3·92	4·16	5·66	6·42	5·00
July 26, 1932 .	3·67	3·63	4·89	5·16	4·30

[1] Taken from the Actuaries' Investment Index.
[2] One each from Australia, Canada, India, New Zealand and South Africa.

On reasonably well secured American preferred shares, not of the first class, it is easy to find yields of 8 to 10 per cent. And to take an average from the figures tabulated by Standard Statistics, excluding those which had suspended payment and those (not a few) which had a yield of more than 30 per cent. (as representing those which were expected to suspend payment before long), the 48 preferred stocks of public utility concerns had an average yield on July 22 of 12·5 per cent., whilst the average yield on 142 preferred stocks of all classes was 11·4 per cent.

On the whole, it would not be an over-statement to say that, whereas a year ago the rates on fixed interest securities were 30 per cent. higher in Great Britain than in the United States, the position at the end of this July was reversed, yields in the United States being fully 30 per cent. higher than in Great Britain. It is not to be expected that the distrust of the American situation and the risk of fluctuations in the exchange will prevent a steady stream of British purchases in America to take advantage of this unusual discrepancy.

(iii) Finally, there is the relative change here as compared with such countries as France and Holland which can be summed up in the following table :—

	Great Britain. 3 per cent. Local Loans.	France. 3 per cent. Rentes.	Holland. 3 per cent. (1898.)
July 1931	66½	87	80¼
July 1932	86	76½	75½

In short, the rate of interest in Great Britain is, for the moment, widely out of line with what it is in the rest of the world. I call attention to these facts, in order that we may not be taken by surprise if we begin to experience their consequences, but not in order that we should be too much afraid of them or of the inevitable process of relative readjustment. For it is we, in this case, who are talking and acting sense, and the others who are talking and acting nonsense; and that will tell in our favour in the long run. We cannot expect to function as a closed system except within limits set by the risk of exchange fluctuations and our distrust of financial conditions elsewhere. We must hope, therefore, to infect others by our example, and perhaps even to supply the first impetus to recovery by our purchases in their markets. There is already talk of conversion schemes in Paris long overdue and held back hitherto by weak concessions to politics. It will not take much to bring about a reversal of sentiment in the United States. For the moment their markets are dominated by insane gambling to get in at the bottom, just as they were dominated in the boom by insane gambling to get out only at the top. If one is offered \$20 for the price of \$10, it may be foolish to refuse; but it may not seem so, if the \$20 is on offer at \$8 a week later. Yet positions of this kind—games of musical chairs in which all the players but one will in the end fail to get a seat—which are not based, and do not even pretend to be based, on intrinsic values and long views, change suddenly. It may be that London, if she is sane, prudent and bold, will initiate the change. But for this we must stick to our policy and be prepared if necessary, to sit quietly through a period of exchange weakness which may well be calculated to make us nervous, without seeking to redress the situation by any deflationary measures whatever.

Since the above paragraph was written (namely, July 20), there are abundant indications that the change in the United States has actually commenced. I do not so much refer to the fact, though it is truly remarkable, that the paper value of all the railways and public utilities, after having fallen to one-tenth of what it had been two years previously, has then proceeded to double itself within five weeks.[1] For this is no more than a

[1] As a curiosity, I reproduce below the Dow-Jones Index of Stock Prices :—

	Rails.	Industrials.	Utilities.
Sept. 1929 .	139·11	381·17	144·61
July 8, 1932 .	13·23	41·22	16·53
Aug. 11, 1932	28·63	68·90	29·15

vivid illustration of the disadvantages of running a country's development and enterprise as a bye-product of a Casino. I refer, rather, to the indications of a reversal of the upward trend of the long-term rate of interest as shown by a rise of 16 per cent. in the index-number of Bonds between July 8 and August 19, 1932.

5. If the change in the rate of interest is to be lasting, there are many adjustments still to take place. We have seen that securities of all kinds, quoted on the Stock Exchange, have responded with extraordinary sensitiveness. Indeed, it would seem in some cases that they have over-responded. But there are still large areas where the readjustment has scarcely begun—in particular the real estate market, mortgages, and house rents. Bank charges and Building Society charges, and, on the other hand, the rates allowed on deposits by the Post Office, the Banks, Building Societies, Municipal Authorities and Savings Institutions are another field where adjustment to the new facts lags behind. All possible readjustments in these directions are, however, of extreme importance for the revival of constructive enterprise. In particular, it might be well if the Banks, the Building Societies and the Post Office Savings Bank would confer together with a view to reducing the rates allowed on all *new* deposits (or re-deposits) to figures (say) one-third below the present figures, which would allow corresponding abatements for charges on new advances.

The position of the Banks (the Big Five) presents a difficult practical problem. Since the War they have incurred expenses, partly through generosity to their employees, partly through ostentation and partly through excessive competition for new business, which assume the permanence of relatively dear money. It is said that their expenses now amount to somewhere in the neighbourhood of 2 per cent. of their total deposits. Moreover, there are many old-standing arrangements for allowing 2½ per cent. on deposits which they are loth to disturb and which it might be unfair to disturb in view of the depositors having accepted this rate all through the dear money period. Thus with Treasury bills yielding ½ per cent. and loans to the Money Market round 1 per cent., the Banks are dependent on earning a high rate on their advances if they are to cover their expenses. The practical result is that, by obstinately maintaining their charges on advances at 5 per cent. except to strong or favoured customers or those who threaten to go elsewhere, the banks are something of an obstruction to a decline in the rate of interest to certain types of borrowers; and it is difficult to see the way out. In the same way in the United States the fear of the Member Banks

lest they should be unable to cover their expenses is an obstacle to the adoption of a whole-hearted cheap money policy.

The Building Societies, on the other hand, are beginning to act. They have already reduced the rates which they allow on new deposits, and there are signs of a movement to reduce the rates charged on new mortgage loans. For example, the Halifax Building Society, which is one of the most important in the country, has already reduced its charges on new mortgage loans by ½ per cent. The funds administered by the Building Societies are now so enormous that this is a movement of the very first importance. We do not always remember the gigantic growth of these institutions since the war;—their new advances on mortgage were about £90,000,000 in each of the years 1930 and 1931, as compared with £9,000,000 in 1913 and no more than £25,000,000 even in 1920. Indeed the amount of new investment within this country, otherwise than through the Building Societies and public or semi-public Authorities and Boards, is now so paltry as to have but little effect on the total. If the rates generally charged by Building Societies could be brought down from their present level of 5½ to 6 per cent. to (say) 4 to 4½ per cent., this would amount to a reduction of some 25 per cent. in the cost of house-room for a section of the population, the elasticity of whose demand for house-room is probably considerable. I can conceive of few things more helpful to a recovery than this would be.

6. If we agree that the main object and advantage of a reduction in the long-term rate of interest is the assistance and stimulation of new enterprise, we must be careful not to sacrifice the end to the means. For a low rate of interest which was only maintained by restraining new enterprise, would be the most futile and disastrous way in which we could occupy ourselves. The market rate of interest depends much more on the psychology of the lender and on the behaviour of the banking system, than on the volume of new enterprise; and there is no necessary reason why the continued maintenance of low interest rates should not be compatible with a marked revival of new borrowing.

It is most desirable, therefore, to re-open the new issue market in London which is still closed to all new borrowers by the ban of the Treasury, as soon as possible. Indeed the ban is unusually strict, applying even to refunding operations and to companies seeking to raise funds for expansion from their own shareholders. A reversal of this state of affairs is called for urgently, and the Treasury, having tasted blood, must not get into the state of mind of wanting to make the slump permanent

in the interest of yet further Conversion Schemes. At the same time I hope that we shall not return to complete *laissez-faire* in overseas lending. Another measure, depending upon the Treasury, which is urgently called for is a reduction in the rate for new loans charged by the Local Loans Commissioners to Local Authorities to a level which corresponds to the new price of Local Loans Stock. A fall of between a quarter and a third in the interest cost is the equivalent of about five shillings in the weekly rental of houses let at £1 a week. This means that even if there were to be some reduction in the subsidy, houses could be built to let at an appreciably lower rental than hitherto. Unfortunately the Ministry of Health is still issuing circulars to Local Authorities to discourage them from capital developments. The real obstacle here is, I think, that the minds of most people are still riddled with the fallacy that the volume of investment and the rate of interest are maintained at the right figures by some absolutely reliable automatic mechanism. It is believed that what we decide is always the direction of investment and never the volume of investment, so that to encourage investment in one direction is always to divert it from some other direction. If only this deep-seated habit of thought could be eradicated!

7. One effect of the Conversion Scheme has been to bring the stocks of the Dominions to a level at which they can again borrow without discredit or overburdening themselves, as shown in the above table (p. 419). If such loans can be floated, we shall have taken a step forward towards world recovery. I believe that we should use our available surplus for overseas lending more fruitfully if we were to direct it to the Dominions and China and, perhaps, South America, than to the distressed countries of Europe, as we shall doubtless be pressed to do at the forthcoming World Economic Conference. For a given sum advanced in the former directions might do more for international trade than if it goes into the latter channels. Professor Belshaw of New Zealand has suggested to me in correspondence that there should be floated an Empire Reconstruction Loan of (say) £100,000,000, each of the Dominions guaranteeing somewhat more than its quota and Great Britain also guaranteeing an amount of the interest and sinking fund not exceeding a certain proportion, so that the loan would be quite safe unless more than (say) a third of the borrowers were to default. Projects of this kind deserve serious consideration.

J. M. KEYNES

REVIEWS

An Essay on the Significance of Economic Science. By LIONEL ROBBINS. (Pp. xii + 141. Macmillan. 7*s.* 6*d.*)

A TEACHER who tries to restrain what appear to him to be the vagaries of his old pupils when they have already reached the early stages of maturity and of the acquisition of reputation runs great risk of presenting a spectacle like that of the heroic hen which plunged into the Cherwell to rescue ducklings which she had fostered. Yet I cannot refrain from putting forward some defence of the conception of economics as the science of wealth (explained as the more material side of welfare) against Professor Robbins' " Science which studies human behaviour as a relationship between ends and scarce means which have alternative uses " (p. 15). Instead of regarding " the economic system " (I do not think he means that there is only one economic system) as a " gigantic machine " for securing material welfare, and trying to explain this machine and its working, Professor Robbins thinks the economist should regard the economic system " as a series of interdependent but conceptually discrete relationships between men and economic goods," and should " ask under what conditions these relationships are constant, and what are the effects of changes in either the ends or the means between which they mediate " (pp. 67–8).

But can it be denied that the economic system or any economic system covering a large part of the world is a " gigantic machine " ? That is just what it is, and the business of the economist is to explain its structure and working. Moreover no one will complain if the economist suggests real improvements in it. Professor Robbins, like many other economists, seems to try to ignore the machine when he says " it is clearly necessary to assume a *social order* within which the valuations based upon it may show themselves in tendencies to action," and " we assume a legal framework of economic activity " (p. 93). Considering the enormous changes to which this framework—the structure of the gigantic machine—is subject, we have no right to make any such assumption. A good example of the misleading character of the assumption is furnished in Professor Robbins' own account of what

happened when the Armistice was signed on November 11, 1918. He says that at 10.55 masses of military material were "wealth and productive power," and "at 11.5 had become 'not wealth,' an embarrassment, a source of social waste" (p. 47). So long as the guns of the belligerent nations were belching forth death and destruction, they were wealth and productive power; when they were silenced and became useful scrap, they were an embarrassment, a source of social waste! Professor Robbins is led to this bizarre conclusion because he attributes the "sea change" (*alias* the loss of value) of the military material to the collapse of demand for it without noticing that this collapse was entirely due to the restoration of a part of the usual "social order," namely, peace between nations, which had been suspended since August 1914. For more than four years the working of the "gigantic machine" had been, in consequence of the suspension, very bad.

Professor Robbins will not allow us to say the War was bad from an economic point of view. If one or both of the belligerents (he does not make it clear whether one or both) decides (whether rightly or wrongly, he does not say) that "the anticipated result is worth the sacrifice," then there can be no economic objection. On the same principle I suppose he would see no economic objection to owners burning their property, if, "having regard to all the issues and all the sacrifices involved," they think it worth while to try to cheat the fire-insurance company. "There are no economic ends. There are only economical and uneconomical ways of achieving given ends. We cannot say that the pursuit of given ends is uneconomical because the ends are uneconomical; we can only say it is uneconomical if the ends are pursued with an unnecessary expenditure of means" (p. 129). Get on with your fraudulent arson, but mind you don't use more matches than are necessary!

I do not know how to reconcile the admitted existence of "the economic system" in its present form with the non-existence of economic ends. However the first beginnings of the system arose, mankind has modified it from time to time through the ages with the intention of making it—this gigantic machine—do its work better, and there has been very little doubt about the meaning of doing it better. When people ask the professor whether such and such a change will be good or bad, they will only find him tiresome if he pretends that he knows nothing of good and bad ends in economic matters and can only talk about the cheapness or dearness of different ways of attaining a given

end. They will say, "You know perfectly well that what we want from you is to be told whether this proposed change will make us and our children better off. For goodness sake give us a reasoned reply without beating about the bush and quoting dozens of foreign economists whom we shall never read."

Benefactors endow Chairs of Economics, audiences listen to economic lectures, purchasers buy economic books, because they think that understanding economics will make people better off. Is it really necessary for professors of economics to destroy this demand for economic teaching by alleging that they do not know what "better off" means?

For that is what Professor Robbins' attack on the more material side of welfare as the subject of economics really comes to. "Material welfare" is the clumsy attempt of the economist to express the common and useful conception of economics in his own stilted official language. Professor Robbins rather perversely speaks as if the material-welfare theorist drew the line between material welfare and other welfare very much further to the left—much nearer, that is, to the grossest animal necessaries of life—than anyone now thinks of doing. The material-welfare theorist is not a physiocrat, but ventures to agree with the ordinary modern view that we do get outside economic goods when we come to such non-material things as the consolations of religion and the joys and sorrows of acquiring and losing spouses and children. Professor Robbins represents him as thinking he is getting outside in a circus or a concert room, regardless of the fact that the very book which bears the brunt of his criticism expressly includes "concerts" on the material side after "food, clothing, shelter, pictures."

I fail to find much force in what he considers the most "crushing objection" to the material-welfare view. He says that if we think of welfare as having a material and another side, we still have to divide our activity between the two sides (p. 11). That is perfectly true. We may have, for example, to decide whether to refuse to work overtime when an urgent order has suddenly come in and thereby offend our employer and damage our industrial prospects, or break an appointment with the young woman we are courting and damage our matrimonial prospects. Professor Robbins concludes that "one of the main problems of the Theory of Production lies half outside" the material-welfare definition of economics. I should say that such decisions are not problems of Production but problems of Life, and that if they lie half outside the material-welfare definition of economics,

that is just about where they ought to lie. They *are* partly outside and partly inside economics.

EDWIN CANNAN

Capital Imports and the Terms of Trade, examined in the light of sixty years of Australian borrowings. By ROLAND WILSON. (Melbourne University Press in association with Macmillan & Co. 1931. Pp. viii + 111.)

DR. WILSON'S book may be divided into three parts: an estimate of Australia's borrowings over a sixty-year period (1871–1930), an essay in the theory of international capital movements, and an attempt to verify the theoretical conclusions with the aid of the Australian figures.

The first task is carried out with the care and subtlety that one would expect in a pupil of Professor Viner's. The main attack is by the indirect method; a comparison is subsequently made with the direct figures available since 1903, namely the volume of the overseas public debt and the movements in banking balances. The cumulative total reached by the indirect method for the years 1903–1930 is £415,237,000, while the amount of public debt raised overseas in those years was £421,217,000. Dr. Wilson is not unduly impressed by the close approximation of these figures; there are greater discrepancies for sections of the period than for the whole. Dr. Wilson throughout lays stress on the tentative character of the estimates. This section is a notable contribution to the statistical study of international payments; it should stimulate others to labour in the same field and public authorities to collect fuller records of current events, so that future economists may have better data to assist them, in their attack on this important branch of theory.

Dr. Wilson's theoretical essay is extremely interesting and suggestive, both for his criticism of the orthodox analysis and for his own method of attacking the problem. An atmosphere of scepticism about the possibility of obtaining positive results pervades his discussion; but Dr. Wilson claims to have established one definite conclusion, and it may be well to concentrate attention on this. It is difficult to assess its value accurately, as the treatment is sketchy and not exhaustive. Dr. Wilson may have felt that a more lengthy theoretical investigation would have destroyed the balance of his book. At the same time, since he has original ideas to contribute to the subject, it is to be hoped hat he will work them out fully and reach a stage in which the

conclusions can be stated in a final and cogent form. He observes in the preface that " the present slender volume may be regarded by the pessimistic, therefore, as a promise of more to come." Inverting his sense slightly, for " pessimistic " we may substitute " optimistic."

Dr. Wilson is concerned to challenge the traditional view that a loan from country X to country Y necessarily makes the terms of interchange less favourable to X. His own conclusion is that, as between X's exports and Y's exports, *that class of goods will be higher relatively to the other, for which Y has the greater relative demand as compared with X.* Consequently, if the ratio of Y's demand for the class of X export goods to her demand for the class of Y export goods exceeds the ratio of X's demand for the class of X export goods to X's demand for the class of Y export goods, the terms of trade will actually move in favour of X, the lending country. In other words, the shift in demand, associated with the shift in purchasing power due to the loan, may enhance the total demand for the lending country's export goods relatively to the total demand for the borrowing country's export goods, and so cause a rise in the price level of the lending country's export goods relatively to that of her import goods. (The two countries are here, as in the traditional analysis, considered in isolation.) Of course the conditions of demand may be the opposite of these, and in that case the terms of trade will move against the lending country. Either of the conditions is held to be as probable as the other. Dr. Wilson's introduction of a consideration of the demand for both classes of commodities in both countries is without doubt of first-rate importance. He is well justified in criticising the usual treatment of the subject for this omission.

In order to reach his conclusion, Dr. Wilson proceeds by way of four examples. In examples I–III he assumes that neither country spends any of its income on domestic (non-tradable) commodities; income in each country is divided between the class of goods exported by X and the class of goods exported by Y. In the fourth example the domestic goods are introduced. Dr. Wilson's conclusion appears to be valid so long as domestic goods are not introduced, and this is in itself an interesting fact. But when account is taken of domestic goods, the traditional analysis, as I shall endeavour to show, must come into its own again.

The matter is of such fundamental importance that I propose to give two of Dr. Wilson's examples (III and IV).

Example III

	X's Demand.	Y's Demand.
X export goods . .	6^{-6}	7^{+7}
Domestic goods . .	0^{-0}	0^{+0}
Y export goods . .	3^{-3}	2^{+2}

The large figures show the proportions in which demand is divided in each country between the three classes of goods before the loan occurs. Since X exports are taken to be equal to Y exports initially, 3 units in the X column are equal to 7 units in the Y column (large). The small figures stand for the increase (and loss) of demand in each country due to the loan. The value of goods represented by the small units is the same in each country. It is supposed that the distribution of the gain (or loss) in purchasing power among the classes, prior to any price shift, which I shall call the primary distribution, is in the same proportions as the distribution of the main income. Now it must be observed that in this example there is a net increase (+ 1, small) in the total demand for X goods, and a net decrease (— 1, small) in the total demand for Y goods. Furthermore, X exports 7 additional units (small) and imports 3 less (small); a favourable balance of 10 units (small) is thus generated. This exceeds the value of the loan, which consists of 9 units (small). Thus X export goods tend to rise relatively to Y export goods and the terms of trade become more favourable to the lending country. This price shift will proceed until the favourable balance is reduced to the dimensions of the loan.

The interesting point revealed by this method of analysis is that, so long as the domestic goods figures are zero, if the shift of demand due to the loan produces a rise in the total demand for X exports relative to that for Y exports, it *must* also produce a favourable balance in excess of the loan; and if the shift of demand produces a rise in the total demand for Y exports relative to that for X exports, it *must* also produce a favourable balance that is less than the loan. Dr. Wilson has thus demonstrated that there are forces tending to bring about equilibrium without a transfer of money. Moreover, a relative rise in the total demand for X export goods or in that for Y export goods are equally probable; consequently it is as likely that the terms of trade will move in favour of X as that they will move against her. (It should be observed that Dr. Wilson's self-equilibrating system is open to the same difficulties, if certain conditions of elasticity of demand are postulated, that he himself raises in criticising Professor Taussig's analysis; but that is a minor matter.)

In the real world, however, there are domestic goods; and Dr. Wilson's crucial example is therefore his fourth.

Example IV

	X's Demand.	Y's Demand.
X export goods . .	2^{-2}	1^{+1}
Domestic goods . .	4^{-4}	7^{+7}
Y export goods . .	3^{-3}	1^{+1}

In this example we have a double result, which was impossible so long as domestic goods were left out of the picture: the total rise in demand for X export goods (— 1, small) exceeds algebraically the total rise in demand for Y export goods (— 2, small), *and* the primary favourable balance (4, small) falls short of the loan (9, small). The primary movement in terms of trade is in favour of X; X export prices rise relatively to Y export prices. This, on ordinary assumptions as to elasticity, increases the gap between the favourable balance and the loan. The double result here noted is not fortuitous and improbable. On the contrary, the favourable balance *must* fall short of the loan, unless X's demand for Y exports plus Y's demand for X exports is at least half the total joint demand of X and Y for all goods, and that is improbable. Consequently if the primary effect of the loan is a movement of terms favourable to X, it is probable that there will be a gap between the loan and the favourable balance, with forces at work tending to widen the gap.

How is equilibrium to be restored? Dr. Wilson's only expedient for restoring equilibrium is a weak one and will not stand the strain. Domestic prices, he urges, will rise in Y relatively to other prices and fall in X. Demand in Y will therefore shift to tradable goods generally and demand in X will move from them. It is not probable that this would produce the effect required. Considered as broad classes, tradable and non-tradable goods are not in general substitutable for each other, and the demand for each class as a whole is likely to have considerable inelasticity. If this is so, the shift in prices between tradable and non-tradable goods will have the *wrong* effect. Are we not, then, driven at this point to introduce the orthodox gadget? At least Dr. Wilson does not show how it can be avoided. The excess of the loan over the favourable balance must be made good by a flow of money from X to Y and/or inflation in Y and/or deflation in X. The extra amount of favourable balance necessary to cover the loan will be generated by a secondary rise of monetary demand in Y and/or a secondary fall in X. If this

process merely takes up the slack of unemployed in Y and/or throws factors out of employment in X without affecting the rewards of those still employed, it may be granted that a secondary shift in the terms of trade may not occur. But if the inflation in Y produces any rise of monetary rewards there and/or deflation in X produces a fall there, the terms of trade move in favour of Y. The essence of the matter is that, if there are any domestic goods at all in each country, the change in the balance of trade generated by the primary shift of purchasing power will probably be less than the loan; if this is so, a secondary shift in the terms of trade, unfavourable to X, will be required to restore the balance. As the primary shift is equally likely to be in either direction, the balance of probability is that there will be a net adverse shift.

Dr. Wilson has a second conclusion. Domestic prices will, he holds, rise in the receiving country relatively to the prices of tradable goods generally, and fall in the paying country. His assumptions with regard to costs are that in the short period the curves are positively inclined, while in the long period costs are constant. On this assumption a shift in domestic prices relatively to export prices can only subsist in the long period, so long as factors of production are stranded. If on the other hand some positive inclination in the long period cost curves is allowed, Dr. Wilson's second conclusion holds. A smaller proportion of the receiving country's productive resources will be devoted to tradable goods generally, and a larger proportion of the paying country's, with the result that the domestic/international price ratio will rise in the former and fall in the latter.

In passing Dr. Wilson makes many interesting points. For instance, he observes that in assessing benefit or detriment, a change in the volume of trade consequent on a loan may be more important than a change in the terms. Again the domestic production of goods of the import class, if and when cost curves are positively inclined, should be taken into account.

In his chapter on "verification," in which Dr. Wilson is duly cautious, he finds no correlation between Australian borrowing and her export/import price ratio, and some correlation between borrowing and her domestic/international price ratio.

The book is a valuable addition to the literature of international trade.

R. F. Harrod

Christ Church,
Oxford.

Economic Progress and Economic Crises. By JOHAN ÅKERMAN. Translated by Elizabeth Sprigge and Claude Napier. (Macmillan & Co. 1932. Pp. i–x, 190. 8*s.* 6*d.*)

DR. ÅKERMAN is very discontented with economic theory as it stands at present, that is (in his terminology) with "the economics of equilibrium," and in this volume tries to outline the field and method of what he calls "the economics of time," which will deal with progress and change. This study is concerned rather with methods of analysis than with the actual solution of the problems presented: "we have attached more importance to the mode of thought than to practical details of its application" (p. 185). For this reason this review will be more concerned with the author's methods than with his analysis.

The author is trying throughout to develop an "economics of time," which (p. ix) is said to be "concrete, quantitative, and determined by time," in order to replace the "economics of equilibrium," which is "hypothetical, qualitative and timeless." By the "economics of equilibrium" it is clear from the book that the author has in mind the analysis of an economy in long period static equilibrium. But it is not quite so clear why such an economic theory is said to be timeless. In many passages it is so called because it cannot study the process of change which is caused in an economy by seasonal fluctuations, by inventions, by capital accumulation, etc. But in certain passages, in which the author is talking of capital theory, it seems that there is a further type of reason for calling a study of static equilibrium timeless: "Capital, the essential attribute of which is its extent in time and which may positively be said to be a measure of time is"—in the economics of equilibrium—"to be regarded as a timeless phenomenon. In such an exposition capital can only be described as the supply of unemployed purchasing power which is available at a given moment" (p. 18). "In such a community there is no growth of capital and, consequently, no interest on capital" (p. 28). Now in this sense the economics of equilibrium are certainly not "timeless"; there will be a certain average length of the period of production in a static state, and a certain rate of interest which will just maintain the capital supply. Moreover, it is difficult to see how this idea is compatible with statements concerning the rate of interest as treated in a progressive state. On pp. 50 and 51, when the author is dealing with "that part of investment which goes to the replacement of exhausted capital," he writes: "Whether capital be applied to the replacement of outworn buildings has no practical

bearing on the money market, because what primarily carries weight in connection with every investment is the expected return. From this point of view there is *only* the creation of new capital. . . ." Surely then from this point of view the static state is no more timeless than the progressive state?

What the author is actually contrasting is the economic theory of a static equilibrium with the economic theory of the process of change, whether that change is due to inventions, the process of capital accumulation or the recurrence of the seasons of the year. Certainly this is a very important study which is as yet very little developed. Such an economic theory will of necessity have to "establish laws each of which applies to a certain economic period" (p. 22); the treatment will in fact be an application to the whole economy of the distinction, which Marshall made between long and short periods for the analysis of a particular equilibrium. In this sense an economics of change will essentially be an economics of time.

But the author continues (p. 22): "In such a theoretic reconstruction one comes quite naturally to start from economic statistics and thus, as in the natural sciences, to let the material of observation serve as a basis for the explanation of causal association." And on pp. 80 and 81 he divides methods of economic study into three groups, the economics of equilibrium, the historical school and "the third trend of thought, which is now beginning to come to the fore, [is] an economico-statistic conception which in its attitude to the causation problem in economics approximates to the mental standpoint of *natural science*." It is certainly true that when one is studying the process of change statistical enquiries for the first time have a great importance, since they are irrelevant in a study of static equilibrium. But in my opinion progress will not be made mainly along these lines. Where in the nature of things a controlled experiment is impossible, how will it be possible to discover by statistical methods the cause of some variation—even if it be fairly regular—which may be due to changes in demand, to inventions or to a rhythm which is due to the process of accumulation of capital? There is a fourth type of economic study, which is quite independent of statistical enquiry, in which certain assumptions are made and from these assumptions the process of change due to important inventions or the continual accumulation of capital is deduced. Such a dynamic theory supplemented by statistical enquiry is likely to be the source of future progress in economic science, but it will be very closely allied to the "economics of equilibrium."

I have spent so much time reviewing the methodological questions raised by Dr. Åkerman's book, that it is impossible to say a great deal about the author's actual analysis, which is of great interest. His statistical study leads him to state that there are three main economic periods, over which change takes place, namely the seasonal, the cyclic and the secular periods. He stresses the importance of a study of seasonal variations; and it is certainly true that such a study should prove very fruitful, for the fundamental cause of such variations is already known and they are for that reason pre-eminently fitted for the type of study which the author desires to make. But cyclic and secular waves are in an entirely different category, since we have to discover the first causes themselves; and surely it is significant that many people would deny the existence of secular and some that of cyclic waves, while no one would question the reality of a seasonal wave.

In his analysis of cyclic changes (Chapter IV), the author states (pp. 49 and 50) that "it is most characteristic of this period that *loan rate and real interest seldom tally*," and that "this circumstance . . . may be said to be the foundation-stone of the whole cycle phenomenon." Yet he states that in this chapter in which he is discussing cyclic waves he is not discussing monetary phenomenon, which he leaves to Chapter VIII, on "The Purpose of Credit." This is an unfortunate separation, for it is impossible to discuss the purpose of credit apart from the rate of interest and trade fluctuations. In Chapter VIII he discusses the difference between a boom in which prices rise and one in which prices remain constant but profits rise because of a fall in costs brought about by rationalisation. "Whereas a boom resulting from a brisk advance in prices may to a great extent be supported by enforced savings, in a boom unaccompanied by inflation there is exceptionally free access to *voluntary* savings. The profits of enterprise are increased with extraordinary rapidity." From this passage it would seem that there are no forced savings (or dissavings) if prices remain constant; but since there is a boom we are to suppose, I imagine, some discrepancy between "the loan rate and the real interest rate" when costs fall and prices remain unchanged. It would follow from this (i) that while there are no forced savings or dissavings the loan rate may not equal the real rate and as a corollary (ii) that while the loan rate equals the real rate there may be enforced dissavings if prices are falling because of a fall in costs. Now whether the author means this to be so or not, I do not

know. But he should have told us exactly what were his assumptions and definitions when he spoke of forced savings, the loan rate, the real rate of interest, etc. For in spite of what he says it is by a method of study independent of statistical enquiry that he does in fact proceed to analyse the process of change, and for such a study an accurate statement of definitions and assumptions is a necessary first step, which unfortunately he omits.

J. E. Meade

Hertford College,
Oxford.

Les Crises Economiques. By M. Bouniatian. (Second Edition, Paris, Giard. Pp. 430. 60 *fr.*)

The first edition of M. Bouniatian's book appeared in German in 1907 under the title *Wirtschaftskrisen und Ueber-Kapitalisation,* and successive editions appeared in Russian in 1915 and in French in 1921. We now have a second French edition, dated December 1929.

The book expounds the author's well-known theory of the trade cycle, and the new edition, besides bringing various illustrative allusions and statistical material up to date, has elaborated the passages dealing with bank credit and with the price level.

M. Bouniatian's theory of the trade cycle is based on "over-capitalisation." Capital outlay is undertaken in anticipation of a demand for consumers' goods. But the volume of saving is determined not by any calculation of the prospective demand for consumers' goods, but by the propensities of the individual. The "blind passion of accumulation" is unlimited (p. 359), and it tends to be increased by inequality of distribution. The entrepreneur's profit plays an important part in accumulation. At a time of expansion, the rise of prices both increases the resources of the entrepreneur and improves the prospect of gain from the application of those resources to new investments (pp. 217 and 365).

When such a stimulus to capital outlay occurs, there is a tendency for the equipment of industry to outstrip the demand for goods for consumption, and there results depression associated with a fall of prices first of consumption goods, and then of capital goods. "If consumption remains constant, a constantly increasing part of the productive resources producing consumption goods must be diverted to produce capital goods. But we have seen that the production of capital goods is strictly dependent on consumption. If the latter remains stationary, the increase of

these goods must quickly and inevitably provoke a general decline of prices " (pp. 267–8).

There results a diminution in the yield of capital which revises distribution in favour of the consumer (pp. 341 and 384–5), capital outlay falls off again, and over-capitalisation is corrected. The way is thus prepared for revival.

It will be seen that this theory of the trade cycle is closely associated with fluctuations of the price level. That is a matter on which M. Bouniatian has very individual views. He starts from the assumption that inelasticity of demand is characteristic of practically all goods. He builds a good deal on Gregory King's famous empirical formula relating the price of wheat to the supply, and assumes as a general principle that " the price varies (approximately) in geometrical progression when the supply varies in arithmetical progression " (p. 223). If there is a diversion of demand from products in general to one product or to a small group, then " the demand concentrated on one commodity or on a small number increases their value considerably more than the equal diminution of demand for a great number decreases the value of the latter " (p. 244). The increases in price outweigh the decreases and " thus the concentration of demand evokes a rise in the price level and in the total value of goods " (pp. 245–6).

Similarly, if demand is diverted from a small group of products to products in general, there will be on balance a fall in the price level and in the total value of goods.

There is also a tendency for a rise or fall of the price level, once begun, to spread to other products (pp. 220–2). If there is a rise in the price of some important product, there results an increased demand for the capital goods required for producing and handling it. The prices of these latter rise in turn, and the increase of demand extends to all other goods, including even those for which the demand was at the outset actually diminished. So there arises a general rise of prices (p. 254).

This analysis enables M. Bouniatian to account for price fluctuations without introducing monetary causes. In treating of the monetary factor, he contends that changes in the note issue are the consequence and not the cause of changes in price (p. 189). Substitutes for money, whether banknotes, cheques, or other credit instruments, by responding to the needs of business, tend to *moderate* price fluctuations which would otherwise occur (p. 190). Banks seek to expand credit at times of depression as well as at times of activity, and therefore the operative cause must be something other than their action (p. 194). And if the

creation of credit by the banks were the operative cause, the trade cycle would be a peculiarity of the Anglo-Saxon countries where the credit system is fully developed (p. 193).

M. Bouniatian has devoted much ingenuity and acumen to this line of argument, for which he would undoubtedly find considerable support among contemporary French economists. But there are, I think, certain fatal defects in it.

The foundation of his explanation of the trade cycle is his theory of over-capitalisation. But why should the tendency to over-capitalisation assume a fluctuating or periodic character? The productive power of the community is *never* fully employed, even at times of intense activity (pp. 212 and 346). It would seem to follow that the appearance of an increased demand for consumption goods does not in itself require additional capital equipment, but merely the fuller employment of that which already exists. The reason for the additional capital outlay at a time of activity is to be found in the additional profits made by the capitalist classes when prices rise (pp. 253–5).

The essence of the matter is the rise of prices. But the argument from the general inelasticity of demand is singularly unconvincing. M. Bouniatian himself repeatedly insists that the demand of the consumer is effective only in so far as it commands purchasing power. "The needs of individuals cannot directly influence the formation of social value except in so far as they are supported by purchasing power" (p. 207). Whatever variations may occur in the psychological basis of value, the demand for commodities is governed by the incomes people have to spend.

In expounding his theory of the price level M. Bouniatian mentions the objection that, with a given total of incomes, the demand for any group of products can only be increased provided there is an equal decrease in the demand for all the rest (p. 243). But he never meets the objection: he leaves it unanswered.

Now it may be admitted that the first impact of any diversion of demand from one set of products to another *might* involve a rise or fall of the price level as a whole, and that, if it did, the consequent rise or fall of the total of incomes would itself provide the change in demand or purchasing power appropriate to the change of price level. But M. Bouniatian has quite failed to demonstrate any definite connection between such a tendency and the prevalent inelasticity of demand that he assumes. (And inelasticity of demand is in any case far from being universal.)

He has not made out his case for a non-monetary origin of the rise of the price level associated with economic activity, and

when he comes to the turning point he proceeds to show (in full accord with writers of the monetary school) that a state of increasing productive activity and rising prices must ultimately come to an end through "the disproportion between the exaggerated extension of credit and its narrow monetary basis" (p. 164). Somehow or other therefore the banks must intervene and stop the rise of prices.

Such intervention by the banks is not peculiar to the cheque-using Anglo-Saxon countries. Wherever there is fiduciary currency backed by liquid assets, the banking system is in a position to regulate the monetary situation and the price level.

It is hardly consistent with modern conditions to treat banknotes as a "substitute" for money. They *are* money, and are, indeed, practically everywhere the primary currency. Gold coin has been relegated to the position, along with bullion and securities, of backing for the note issue.

M. Bouniatian's view that changes in the quantity of currency are the effect and not the cause of changes in the price level is defensible. But that is so because the central bank which issues the notes relies upon its power of regulating credit to keep control of the note issue, and it is the same power of regulating credit that influences the price level. The price level depends on the demand for commodities, demand depends on the aggregate of incomes, and incomes depend on the supply of money to industry through the lending operations of the banks. R. G. HAWTREY

The World Depression, South Africa and the Gold Standard. By G. C. W. SCHUMANN, D.Comm. (Walker Bros., Ltd., 3, London Wall Bldgs., E.C.2. Pp. 153. 7*s.* 6*d.*)

EVER since last September the inhabitants of the Union of South Africa have been engaged in a furious discussion of the question of the Gold Standard, a discussion which has generally been marked equally by the intensity of the passions aroused and the lack of economic knowledge shown. It is mainly to remedy this lack that Dr. Schumann has written this book, though he expresses the hope that it may also prove of interest to students, both in South Africa and elsewhere.

The book is divided into three parts. In the first the author gives a general outline of the causes of the present world depression. His exposition for the most part follows familiar lines, and gives in a convenient form a résumé of most of the relevant facts. Its chief defect is a dangerous over-simplification of the quantity theory of money, which makes him appear to indicate that the

"general price level" is a coherent entity, the various parts of which are similarly and simultaneously affected by changes in the quantity of money. It is probably due to this defect in his analysis that he fails to bring out the fundamental inter-connections which exist between certain phenomena, which he describes merely as incidental symptoms of the present depression. The reader would do well to supplement the information here provided by the study of a simple statement of the results of recent investigations into the relationships existing between variations in the quantity of money, or the creation of bank credit, the rate of saving, the structure of industry, and the state of trade, such as may be found in Dr. G. Haberler's recent Harris Foundation Lecture on "Money and the Business Cycle" (*Gold and Monetary Stabilisation*, Chicago University Press, 1932).

In the second section of his book Dr. Schumann gives, briefly but adequately, an outline of the theory of foreign exchange, explaining the use and meaning of such terms as "the Gold Standard," "Balance of Payments," "Gold Points" (the figure given on p. 73 for the lower gold point in the pre-war sterling–dollar exchange is an obvious mis-print), "Purchasing Power Parity," "Inflation," "Deflation," and "Devaluation." He then proceeds to illustrate his points by a concise account of the events and policies leading up to the abandonment by Great Britain of the Gold Standard. He is on the whole very charitable about that lamentable page in our national annals, and also tends to under-estimate the harm caused to the rest of the world and so to exaggerate the absolute benefit derived by Great Britain, but nevertheless he concludes that, in view of unstable conditions abroad and conflicting policies at home, the immediate future of the British pound is far from certain.

In the third section, which should be of interest and use to students both in South Africa and elsewhere, Dr. Schumann deals with the special position of South Africa. After a brief investigation of existing economic conditions in that country, which in consequence of the prosperity of the Rand Gold Mines he finds to be much better off than most other parts of the world, he proceeds to discuss the arguments for and against retention of the Gold Standard. He shows conclusively that the arguments against retention which are based directly on the British abandonment are fallacious, and demonstrates that South Africa's difficulties are due entirely to the continued fall in world prices (although, as mentioned above, it is doubtful if he appreciates how far this fall has been intensified by Britain's action). In

view of the uncertainty of the future of the British pound, he considers that it would be unwise to link the South African pound to sterling, while to engineer a temporary depreciation, to be followed by a return to parity with gold, would be worse than useless. He therefore suggests that, if it were decided to abandon the present gold parity, the South African pound should be re-linked to gold as soon as possible at a lower level—say at a 25% depreciation.

Before discussing the practical possibility of such a step, he attempts to estimate its probable effects. He thinks that it would cause a very moderate rise of probably not much more than 5% in the cost of living, a moderate benefit to exporters of farm produce (though one little if any greater than that received at present from the export subsidies), and a very substantial gain to the gold mines. Of this he thinks the government should take, by a special tax, the lion's share, thereby more than offsetting the loss to be incurred by the apparent increase in its sterling debts. With regard to the position of the commercial banks Dr. Schumann appears to be in error, for so far from making even a modest exchange profit on a fall in the sterling value of the South African pound, they would at present make a substantial loss, though this might be offset by some reduction in bad debts. He concludes that, if the policy were practicable, South Africa would derive some net benefit from devaluation, mainly in the lengthening of the lives of the Rand gold mines.

When, however, he comes to discuss the practicability of this project he finds many difficulties, both political and economic, of which one is the fact that South Africa's trade balance has now become adapted to the situation created by the great outflow of capital between September 1931 and February 1932. This difficulty Dr. Schumann, writing in March, tends to underestimate, for in consequence of the very marked fall which has taken place in South African imports, the visible export surplus during 1932 is likely, not merely to be maintained at the 1931 level, but to increase from £18½ Mn. to some £30 Mn. This is probably about £10 Mn. in excess of the amount required to cover the net balance of invisible imports, and should enable the South African banks largely to replenish their depleted London reserves.

If the South African government wishes to depreciate the currency, it will have to do so as a deliberate act of policy, by causing a temporary dis-equilibrium in the balance of payments through a prohibition of the export of gold or by large repayments of foreign debts out of money raised locally. The new value of the currency will then have to be made permanent by a change

in its purchasing power parity, brought about by a local expansion of credit or other inflation on a very considerable scale. In view of this and other difficulties Dr. Schumann considers that the policy of abandonment is too dangerous to be practicable, and advises the retention of the Gold Standard. F. W. PAISH

London School of Economics.

Currency and Banking. By D. T. JACK, M.A. (Pitmans. Pp. 192. 5*s.*)

MR. JACK'S book follows familiar lines. After an introductory chapter on the functions of money, which includes a brief account of index numbers, the value of the medium of exchange is considered in terms of demand and supply, and the well-known algebraic formulæ are presented. Possibly this sudden plunge into abstractions may be a little chilling to the novice; and a more gradual approach to deep waters would, incidentally, have made possible a more precise definition of some of the factors in the equations.

The longest chapter in the book is concerned with Foreign Banking Systems, and here one would willingly have spared some of the legal details, which cannot have much meaning for elementary students, for a closer examination of the relative merits of elastic and inelastic note issues in general.

These apart, the arrangement is excellent; the summary of accepted doctrine and of modern banking practice is well presented, and it is rare to find an introductory manual in which the balance of theoretic and realistic elements is so well maintained as here. Mr. Jack has a facility for expressing lucidly the core of theories and the fundamentals of institutions. His accounts of the foreign exchanges, the control of credit, the gold exchange standard, and the monetary crises of 1931 are admirably concise. He is sparing in his judgments; he does not commit himself to any verdict as to how the price level ought to behave; he does not spend time in discussing the failings of Americans or Frenchmen, of British bankers or British industrialists—and this is no small merit in any volume on currency to-day. Those who first approach the subject under his guidance may count themselves fortunate: they are not likely to have much to unlearn. T. S. ASHTON

The Crisis of the £. By J. TAYLOR PEDDIE. (Macmillan. Pp. 138. 7*s.* 6*d.*)

THIS book appears as a supplement to the author's *The Dual System of Stabilisation* and to some extent presupposes a certain

acquaintance with the ideas contained therein. As a book it does not make easy reading, for Mr. Peddie has a peculiarly irritating style of exposition which strains the reader's patience, partly through an uncompromising dogmatism, partly through the omission of connecting links, and partly through the introduction of views on other issues which are not fundamental to the main argument. A first reading will suggest to the reader that he is wallowing in paradoxes, but many of these will disappear if he has the patience to disentangle the sentences and supply certain omitted connections.

The particular crisis which is discussed is a necessary consequence of the monetary and banking system which this country possesses rather than the result of a certain concatenation of disturbing factors; and the chief defect of the monetary organisation under review is the inelasticity in the supply of currency. Mr. Peddie does not hold that the trouble arose from the failure of America and France to play the gold standard game; it was due to the failure of this country to play this game with equal effectiveness. We were beaten through "the fault of those responsible for the management of our monetary policy" (p. 117). This does not imply, as might be thought, merely a criticism of the policy of the Bank of England; it implies a criticism of the monetary and banking structure as a whole.

Mr. Peddie is a hostile critic of the so-called Quantity Theory of Money, though it is difficult to believe that he really understands the object of his criticism. The error in the theory apparently lies in the fact that "at least 80 per cent. (of the total quantity of credit issued) is financial and 20 per cent. commercial" (pp. 49-50). "Purchasing power is manufactured, and it certainly does not emanate from a sale of commodities" (p. 51). Mr. Peddie would substitute a Quantity Theory of Currency. Prices must be predetermined by reference to volume and cost of production and goods must be produced before commercial credits can be extended. Under these conditions apparently the possibility of inflation is precluded, since currency increases are fully covered by "wealth" and circulating commercial credits can be indefinitely increased through currency. This involves the rehabilitation of the bill of exchange and the possibility of its rediscount for currency so that currency may expand or contract *pari passu* with industrial activity. Mr. Peddie sees that some form of control over "financial credit" would still be required. "Expansions of standard currency will extend the basis of financial credit, and unless the ratio were controlled inordinate expansions of credit would ensue, thus promoting an inflation of security prices. This defect is elimin-

ated by limiting the ratio of credit expansion at 9 to 1, full power being given to the Central Bank to lower it should it be found desirable to contract financial credit. This obviates the present method of raising the Bank Rate, which experience has proved to be ineffective, and which unnecessarily penalises producers and consumers who are not responsible for the inflation of security prices" (p. 57).

It is difficult to accept the distinction between financial credit and commercial credit as drawn by Mr. Peddie. The author, however, would like to see the adoption of the American reserve system in this country, free of course from the defects of that system, which consist in the inadequacy of the control possessed by the Reserve Banks over all the banks in the country. "The failure of banks is generally traceable to unwise lending of credit on financial securities" (p. 46). The rehabilitation of the bill of exchange as a credit instrument would not in itself be difficult, but this would not serve Mr. Peddie's purpose unless it were also part of the mechanism through which currency came to be issued. It is part of the author's argument that currency and credit are not equal as money. Moreover, orthodox theory has apparently erred in failing to distinguish between the *standard* of value and the *measure* of value. "Gold as a commodity is the standard, but as a commodity it is certainly not the measure" (p. 13). "In so far as Great Britain is concerned, the measure of value should be the paper pound, and, provided the pounds in issue are fully covered by eligible bills drawn against wealth products, it should be invariable in itself. If covered by wealth, why should we wish to sell our paper pounds at less than their face value? The pound note should represent 240 pence worth of purchasing power over the mass of commodities, and, as such, it should be the measure of value." As a matter of fact, of course, we do not sell our paper pounds at less than their face value at present.

The reader of this book will also find a scheme whereby government and municipal securities may be converted to $2\frac{3}{4}$ per cent. tax-free basis and whereby the pound may be restored to its mint parity. In the proposed new system "gold must be retained as the unit of measurement, and as a commodity for reserves, but not as the measure of value" (p. 125). What Mr. Peddie really means in this queer sentence is that gold is to be retained as the unit of measurement for international currencies; but the quantity of the internal currency must not be related in any way to the gold reserves of the central bank. D. T. JACK

The University,
St. Andrews.

The Gold Tangle and the Way Out. By FREDERICK and ALFRED WIGGLESWORTH. (John Lane, The Bodley Head. 1931. Pp. 245. 5*s.*)

THE crisis of last summer is the main theme upon which this work is constructed. The authors analyse the monetary forces which since the war have been undermining the English economic structure, and conclude that freedom from the Gold Standard—the abandonment of which they welcome in an Epilogue—should allow us to regain prosperity once more. Under the name of an "Isometric Currency" they plead for stabilisation of the wholesale price index. While many economists will agree with some of their conclusions, few will be satisfied with their analytical work. Their exposition (p. 55) of the "equation of exchange" will illustrate this :—

> "If G be the quantity of gold and P the quantity of produce available for exchange at any one moment, $G \times P = K$, where K is constant. This is merely the shortest way of saying that the quantity of gold supplied to the market, in other words 'price,' varies inversely as the quantity of goods supplied to the market, which we may call 'production.'"

But they do not satisfactorily explain in what sense the quantity of gold is synonymous with price, nor why the amount of "gold supplied to the market" should be halved, if the quantity of produce is doubled. In the words of the authors (p. 208), "the problem needs deeper examination."

J. E. MEADE

Hertford College,
Oxford.

The Pinch of Plenty. By ANN BERKELBACH and D. G. HUTTON. (London: Sidgwick and Jackson, Ltd. 1932. Pp. 172. 3*s.* 6*d.*)

Money in the Melting Pot. By HARTLEY WITHERS. (London: Sidgwick and Jackson, Ltd. 1932. Pp. ix + 138. 3*s.* 6*d.*)

Nations and the Economic Crisis. By D. GRAHAM HUTTON. (London: Sidgwick and Jackson, Ltd. 1932. Pp. 168. 3*s.* 6*d.*)

The Future of Europe. By H. WILSON HARRIS. (London: Sidgwick and Jackson, Ltd. 1932. Pp. x + 130. 3*s.* 6*d.*)

THESE four new volumes of the "World Problems of To-day" series deal with different aspects of the economic crisis, and it is

encouraging to find not only virtual unanimity of opinion about causes, but even a measure of agreement as regards possible remedies.

The authors of *The Pinch of Plenty* are concerned with the plight of the primary producing, and more particularly the agricultural countries. Here the War is obviously the villain of the piece. All European countries extended their acreage under cultivation beyond the needs of normal times, and proceeded, after the restoration of peace, to protect their own uneconomic production, while leaving producers overseas with huge superfluous stocks on hand. Thus nationalist policies have almost destroyed the fruits of the Industrial Revolution. The only remedy for world evils is world co-operation. Primary producers have never had the benefit of even that measure of rationalisation which industrialists enjoy, and in fact they need much more. The writers recommend international agreement, whereby essential grains should be grown on whatever may be the soil most suitable, while the market for cattle, dairy products, fruit and vegetables should be reserved for the home producer.

In *Money in the Melting Pot*, Mr. Hartley Withers attacks the problem from the currency side. While the events he describes are by now familiar ground even to the average newspaper reader, yet the cogent argument, the crisp, terse language, the appeal to common-sense and understanding which we have learned to associate with the name of Mr. Hartley Withers, are always sure of a welcome. He describes and explains the effects of the restoration of the gold standard in England in 1925, the maldistribution of gold caused by the financial inexperience of the United States and the political fears of France, the catastrophic fall in prices, the run on Germany followed by the run on England, and the collapse of the gold standard. While making generous allowance for the difficulties of foreign nations, he apportions the blame between ultra-nationalist policies, international cash-grabbing, the futility of allowing statesmen to settle currency problems, and finally the general overwhelming fear of inflation which has driven the world almost to bankruptcy.

When it comes to the question of remedies, Mr. Withers is somewhat less assured. Now that money is in the melting pot we have a unique opportunity of rebuilding the machine on new and better lines. Though instinctively distrusting a managed currency, he admits that it actually " works," almost the highest praise we can expect of him. The gold standard is not, in his opinion, likely to be restored, and we must look for international

co-ordination of paper currencies. What is really needed is political confidence, and the conclusion, rather unexpected and a little disappointing, is that almost any sort of monetary machine will work, more or less, as long as international goodwill and sanity are behind it.

Mr. Hutton in *Nations and the Economic Crisis* is much more convinced that he knows where the remedy lies. While Mr. Hartley Withers asks, not too hopefully, for international action, Mr. Hutton would proceed at once to organise it. A brief review of the rise of British industry shows that all the factors of the present situation were already in evidence in 1914. The World War postponed the evil day, but did not avert it. For a time the subsequent chaos concealed facts which have since emerged into the light of day. Reparations and War Debts, maldistribution of gold, tariff barriers and ultra-nationalist policies all combine to aggravate the evils of a faulty economic order. The first steps towards the abolition of private enterprise were taken, when interference with its management and heavy taxation of its profits began seriously to hamper the system without providing an adequate substitute. Economic nationalism and political uncertainty have done the rest. So long as the competitive system produced the most efficient methods it justified itself: when it involves re-duplication, over-production, destruction of goods and widespread unemployment, the justification disappears. The industrial world must accept the Russian challenge, and it is better to imitate consciously and with discretion, than to be forced to do so by mutual contagion.

And so Mr. Hutton introduces his scheme of economic reconstruction. He would appoint a number of National Commissions, Boards and Councils to deal with our internal economy, with corresponding International Commissions to co-ordinate national policies and efforts. The scheme is a mere outline which we can fill in at pleasure, and the details are obviously open to argument.

In *The Future of Europe*, Mr. Wilson Harris describes what is, what threatens, and what might be in 1940 if forces of reason and good-will prevailed. He too begins by describing the post-war throw-back to blind nationalism. Every nation recognises the viciousness of competitive armaments and the futility of tariff barriers; each would reduce the former and lower the latter; but each would wish to be the last to act in these directions.

Reviewing the present situation and its danger spots, Mr. Harris concludes that war is possible, but peace more probable.

He believes too that Democracy will survive in Europe, despite the danger of Dictators, fore and aft, partly because there is no alternative that is universally acceptable, and partly because it responds to the general instinctive sense of right and justice. The task of the future is to carry the democratic spirit beyond national frontiers, and the concluding chapter of the book describes Europe as it might be in 1940, if sanity prevailed. Countries would settle their disputes peacefully; frontiers would distinguish but not divide; minorities would no longer distrust or be distrusted, and tariff walls would be lowered by mutual agreement.

The tragedy—not that Mr. Harris envisages tragedy—is that it would all be so good and easy, nearly as easy as it might have been for the ancient Israelites to abstain from worship of the Golden Calf.

H. REYNARD

Economic Stabilisation in an Unbalanced World. By ALVIN HARVEY HANSEN, Ph.D. (New York: Harcourt, Brace and Company. 1932. Pp. ix + 384.)

THE question which Professor Hansen sets out to answer is not only "Whither are we going?" but whence, why, what can we achieve, and how shall we achieve it? The desire for economic security has never been so general and pronounced as in these days of world-wide maladjustments. Can stability be attained or is it a tantalising mirage? If feasible, what will be its cost? Professor Hansen suggests at the outset that a high degree of stability might very well be purchased at too great a cost of freedom and progress, and this is the conclusion to which his closely reasoned argument appears to lead.

The world depression of 1930–31 owes its abnormal severity to the fact that we are in the trough of one of the commonly recognised seven-year major cycles, which happens to coincide not only with the lowest point of the American forty months' minor cycle, but also with the trough of Kondratieff's forty-five-to-sixty years' long wave. Dealing with the question of remedies, it is pointed out that shorter hours, though a useful expedient in seasonal and cyclical unemployment, cannot help when the difficulty is due to structural changes in industry. At higher wage rates per hour, a shorter day, unless offset by increased efficiency, would actually aggravate the situation; at unchanged wage rates shorter hours would at best afford a defeatist solution, an acceptance of the situation as final and incurable. The main appeal of the shorter day argument is probably to the inclination—or disinclination—of the worker.

If shorter hours are no cure for unemployment, neither are high wages a specific against trade depression. Professor Hansen makes short work of arguments much in favour with Labour, which put the cart before the horse. On the question of wage reductions, the verdict varies somewhat in different parts of the book: it would seem that the writer's head and his heart are not in agreement. Finally he hazards that if wages were reduced on a nation-wide basis, the gain in employment would more than offset the loss in wage rates, but adds that unfortunately economic science is not in a position to demonstrate this conclusively.

The argument leads, with considerable divagations, to the final choice between Social control and Laissez-faire. A free, vigorous, flexible market makes for progress, while social control would give us a stable, static, secure society, imprisoned in a strait jacket. But the majority insistently demands stability, and a larger measure of social equality. Have we reached a sufficiently high standard of production to justify stabilisation at our present standard of living? Our real income has increased fourfold in the last hundred and twenty-five years, but Professor Hansen would like to see it quadrupled again before he settles down to the stationary state.

The choice may not lie with the economists, or indeed with anyone capable of precise thinking. Russia has demonstrated that a planned economy can be as, if not more, efficient than a competitive one, and a planned economy is not necessarily communist or even socialist. It is suggested that in England and Germany capitalism, exhausted, may give up the struggle against a strongly entrenched Labour element, while in America a planned economy might take the form of a capitalist dictatorship..

The arrangement of the book is not ideal, and it is difficult to understand the inclusion of certain portions except on the general ground that the author could not bear to omit anything that bore even indirectly on the topics under discussion. He advises the professional economist to skip the descriptive chapters on Reparations and War Debts, the Export of Capital, Russian Dumping, Unemployment in Europe and America and Insurance against Unemployment, Population, Migration and Housing. All these contain much interesting matter admirably presented, but they tend to break the thread of the argument, and involve some unnecessary repetition. They are, however, by no means the least interesting part of a book which can be warmly recommended not only to the economist but to the student of social philosophy.

H. REYNARD

Institutes de Science économique. By G.-H. BOUSQUET, Chargé de Cours à l'Université d'Alger. (Marcel Giard, Paris. Tome I : Introduction à la science économique, 1930. Pp. xix + 268. Tome II : Les Bases du système économique, 1932. Pp. 207 ; 75 *frs.*)

DR. BOUSQUET seems to differ from Justinian either in what he means by "Institutes" or in what he thinks the beginner to be able to absorb. For the two volumes before us are obviously the first instalments of a treatise as comprehensive as Colson's, and the author pays a high compliment to the French *étudiant* if he expects him to take it up as a first introduction. It is true, however, that Dr. Bousquet proves himself to be an excellent teacher who knows how to make things both easy and pleasant for the tyro without sacrificing scientific rigour or slurring over real difficulties. He is fairly entitled to congratulation on the success with which he has expounded, and improved upon, that elusive mass of facts and ideas which we call "established doctrine."

Within the precincts of pure theory, the centre of this body of doctrine is still the concept of equilibrium. The history of pure economics might be written wholly in terms of this fundamental idea, which from rudimentary beginnings has, by becoming conscious and complete, made our theory what it is, and still constitutes the master-key to our modest arsenal of theoretical tools. It is, therefore, the first thing a scientific economist must get a firm hold of, and among the many merits of Dr. Bousquet's work I would allocate the first place to the energy with which from the outset he impresses on his readers the importance and all the aspects and implications of the equilibrium-idea, translating felicitously into non-mathematical language the gist of the message of Walras and Pareto. Nobody has as yet, so far as I know, adopted in a treatise intended for a wider circle of readers the *modus procedendi* of presenting that idea at the very threshold of the subject, instead of letting the reader get a mere glimpse of it as the argument unfolds itself. But Dr. Bousquet does more than this. He tries to carry the idea of equilibrium beyond the sphere of pure theory into the realm of environmental data of economic life. This is the distinctive characteristic of the second volume, in which he deals with the natural, racial, institutional and other environments under the aspect of equilibrium problems. We are, *e.g.*, not simply introduced to facts and theories about social organisation, legal institutions and the like,

but to the "*équilibre social du système économique*," "*l'équilibre politique*," to action and reaction between nature and economic activity or technological and economic fact, and in the second part, most important of all, to the "*équilibre démographique*." There is, to be sure, not the same warrant for proceeding like this in that wider frame as there is within the compass of pure economics, but the method proves useful nevertheless, and many problems acquire clear-cut contour lines by being attacked in this way. Besides, French as well as other readers will be grateful to the author for supplying links between what seems to many of them a body of somewhat arid theorems and that borderland of pure economics, which they are really interested in and which the author, for many reasons, among them a stupendous command of foreign languages, is exceptionally well qualified to deal with. Dr. Bousquet himself seems to look upon this part of his work as a synthesis between Pareto and Sombart, and this formula may indeed serve to characterise both what he attempts to do and what he achieves.

In the first volume, Dr. Bousquet preaches admirable doctrine as to general method—to-day as necessary and useful as ever. The chapters on science in general, on the science of economics, on questions of method, on applications to practical questions, and the excellent chapter on the history of science, which recalls to the reader the author's *Essai sur l'évolution de la pensée économique* (1927), contain some of the best things ever said on those subjects. But it is another part of the building which specially calls for comment. The evolution of that type of economic theory, of which the concept of equilibrium is the corner stone, has been associated with a tendency towards emancipation from everything connected with Utility—a tendency towards mere "Price-Economics." The arguments for, and the achievements of, this tendency are well known. But "Price-Economics" is powerless to deal with a most important set of problems, and this accounts for the emergence of "Welfare-Economics," which necessarily relies on other methods and the success of which to some extent disproves the scruples we may harbour about such things as comparing the satisfactions of different people. This cannot fail to give a new impetus to the old Utility-theory, and points to the advisability of attempting another piece of synthesis. In Dr. Bousquet's pages, this state of things shows up significantly. Valiant Paretian though he is, he resolutely goes back to the two laws of Gossen, and he deals fully with Welfare and its measurement in a chapter (V) already published in the *Weltwirts-*

chatiches Archiv, 1929. We might try to attack this problem in the light of the principles of what we have called "Price-Economics"—that is to say, we may define Welfare as a scalar function—a sort of potential—of the quantities of commodities consumed by every household in the unit of time without raising the question of the actual feelings of individuals.[1] But Dr. Bousquet chooses the other way. He allocates to the concept of Welfare its full subjective and hedonistic significance. Now as soon as we do this, the insufficiency of the old theory of Utility immediately becomes obvious, and we are unavoidably driven to investigations about what those feelings really are. Many problems of a mathematical but also of a more intricate nature present themselves on this way, to the solution of which the author contributes substantially by insisting on, and drawing unflinchingly the theoretical consequences of, the fact that habit and the emergence of new wants soon extinguish any consciousness of improved economic conditions, and that, subjectively, only short period variations really count. On the strength of this, he boldly postulates that subjective Welfare is a constant in the long run.

On this point, as on others, we may agree with the author or not. But in either case we must recognise the energy and ability of his exposition, the product of an ingenious and cultivated mind. Wide horizons and an admirable erudition, about which there is nothing stale or stereotyped, make an excellent frame for a lively and unconventional argument. which moves from topic to topic by elastic steps.

JOSEPH A. SCHUMPETER

Le Salaire, l'Évolution Sociale et la Monnaie. Essai de théorie experimentale du salaire. By F. SIMIAND. 3 volumes. (Paris. Alcan. 200 *frs.*)

THE central part, and probably the most valuable part, of this large work, is to be found in the last three chapters of Volume I, and in the corresponding tables and diagrams in Volume III. Here Professor Simiand gives us a careful and useful estimate of the relative changes in French money wages since about 1800. The results are not presented in the customary way, as a series of index-numbers; since, in the author's view, this would strain the available information; instead, a number of generally partial and incomplete series are deduced from the statistical material and reduced as far as possible to a common basis. But the general

[1] In this case, "Welfare" would merely be a name for a device to describe the observable behaviour of individuals.

movement remains quite clear. After a considerable rise during the revolutionary and Napoleonic wars, money wages remained steady, with perhaps a slight tendency to fall, until about 1850; from 1850 to 1880, they rose by something of the order of 60 per cent.; 1880–1900 was a second period of steadiness, but the rise was resumed at the turn of the century, and by 1914 it had perhaps reached as much as 30 per cent. on the 1900 level.

This analysis of French wage-statistics is, however, only a small part of the task which Professor Simiand has set himself; the main object of his book is nothing less than the construction of a theory of wages by the "experimental" or inductive method. Indeed, before we are allowed to approach the statistics, we have to go through nearly 300 pages of methodology. A great deal of what is said in these pages would be acceptable to all economists; one fears that sins against these precepts have more often been committed out of laziness than because their validity has been denied. A scientific doctrine cannot be regarded as established until it has been proved and tested by facts; until it has been so tested it is no more than a hypothesis. So much is perfectly satisfactory; and most of what Professor Simiand has to say about the methods by which such testing should be carried out is equally unobjectionable. But on the construction of hypotheses he has views which it is much less easy to accept; for he refuses to accept the conclusions of deductive economics even as hypotheses, and determines to test out an immense list of circumstances which are considered as possibly relevant by unaided commonsense. He concedes, indeed, that no hypothesis can be considered acceptable which is not "rational"; but he declines to analyse further this criterion. If he had done so, he must surely have seen that the rationality the mind demands is nothing else but consistency with established results in other fields of knowledge; and that as soon as we apply this test the field of possible hypotheses is immensely narrowed. It is because a satisfactory theory of wages must be consistent with other branches of economic science that we are not at liberty to choose our hypotheses at random; for it can hardly be denied that our acceptance of some of those other branches rests not only on internal coherence, but also on established conformity with fact. The theory of International Trade, for instance, which has so great a relevance to Professor Simiand's own problem of money wages, seems to possess an extremely strong position in this respect.

Professor Simiand's methodology leads us to approach his second volume—*Étude des concomitances*—with some trepidation;

and our trepidation proves to be partially justified. The experimental method has the greatest difficulty in distinguishing cause from effect; and so we have to seek for correlations in religion, and find them in suicides, before we come to those definitely economic matters, to which deductive theory would have pointed us directly. Nevertheless, this second volume is much more interesting and much more satisfactory than might reasonably have been feared. For Professor Simiand's care, and his common-sense, get the better of his method; and the experimental method does actually reach, at the end of a very long road, precisely the same result as more ordinary methods would have reached more directly.

A deductive theory of money wages would presumably begin with a particular form of the quantity theory of money. The average level of money wages within a nation must equal

$$\frac{\text{monetary circulation} \times \text{its income-velocity} \times \text{proportion of National Income going to labour}}{\text{number of labourers employed}}.$$

Applying this formula to the conditions of France in the nineteenth century, it would be observed that (in the latter part of the century at least) the increase in the denominator must have been very gradual; while neither in the income velocity of money, nor in the proportion of the National Income going to labour, should we expect anything but a fairly gradual trend, though sharp fluctuations about that trend are certainly possible in each case. Entirely *a priori* analysis would therefore suggest that variations in the quantity of money would be the most probable cause of large fluctuations in the general level of money wages; and it is extremely satisfactory to find that Professor Simiand's lengthy road leads him in the end to the same conclusion.

But how much more interesting this conclusion could have been made if he had used the rather complex hypothesis suggested by theory! The "experimental method" does not seem to encourage study of the interaction of different tendencies; and thus, although the fact that monetary statistics and wage-statistics show the same turning-points is so properly noted, no attempt is made to correlate them more closely, in order to isolate the other factors presumably at work. Professor Simiand observes that the supply of money appears to have increased throughout the nineteenth century much more rapidly than the wage-level, but he throws little direct light on the reasons for this. However, he does present (for quite different purposes) some rough statistics of the total national income; and from these it looks as if the proportion of that income going to labour was tending to

fall—at any rate after 1850. That does something to correct the difference, but probably not enough; thus it looks as if there must have been a fall in the income-velocity of money.

These results are derived from a very cursory examination of Professor Simiand's statistics. I do not think that either of them is on general grounds surprising—in a period of considerable technical development and capital accumulation, and among a people with a known propensity for hoarding. But they are put forward here merely to suggest what a wealth of valuable matter this book contains—if only it could be used by someone not wedded to the experimental method!

J. R. Hicks

Price Cutting and Price Maintenance. By E. R. A. Seligman and R. A. Love. (Harper and Brothers. Pp. 539. $6.)

This is a most complete study, not only of the policy of the maintained re-sale price, but of the retail trade itself. Economists will be grateful to the authors for the new light they have thrown on what may be called the fighting front of the industrial system, the retail shop, where the products of all the elaborate stages of production have finally to go over the top. It is plain that a serious problem is created for the manufacturer if anything is happening there which offsets to any appreciable degree his costly preparations for efficient supply. The policy which is discussed as price maintenance arises out of the opinion of producers that, because of certain features of retail selling if it is left quite free, their good-will may be prejudiced, their advertising expenses largely nullified, and their outlets restricted. The fact that in so many countries this question has recently become both a business and a legal issue shows that it has general aspects which called for expert economic analysis and review. This volume abundantly supplies that requirement.

The variation of national attitude to the question shows that there is more to discuss here than in respect of Trust policy. There is agreement that the dangers of monopolistic influence on prices should be foreseen and prevented. The analysis of this is easily set out. But price maintenance is in itself quite separate from monopolistic policy, and presents the curious feature that it is thought good competitive policy not to allow one's goods to be retailed at any low prices which the retailer might choose, even though the producer had obtained his own full price from the wholesaler or retailer. It is clear that the scope of this question is those goods which do not change their form after they have

left the hands of the producer. It is in these cases that his name, good-will, and brand run with the goods, and that he retains an interest in the goods until they pass to the final buyer. From this fact arise the complications of argument which have created in all modern countries the problem of vertical price maintenance as distinct from the Trust or horizontal problem.

It is in America that the question is now most hotly debated. It is there an important issue of policy. This seems to be partly due to a contagion of Trust legislation which has spread outside its proper field, and has brought within its ambit of ideas a procedure which resembles Trust action in the outward appearance of maintained prices. The authors frequently comment on this fact. The result there is that retail price maintenance is, for Federal purposes, either illegal by the ordinary method of contract, or so restricted by suspicion of implicit contract in the case of refusal to sell that it is now harassed into the position of an unfair trade practice, and is so listed by the Federal Trade Commission. In Germany, the Cartel Decree has been adapted and supplemented in reference to price maintenance, but the practice is not there an outlaw. In France, according to the penal code, "distributors who sell merchandise above or below the manufacturer's suggested re-sale price are liable to fine or imprisonment." While in England, though the practice has come under the review of two Committees since the War, it would be correct to say that they have not found anything in it which would be worth special legislation, and that it is here regarded as an interesting aspect of competitive practice in which there is nothing to get excited about. Even in reference to the boycott by some manufacturers of Co-operative Societies, the last British Committee, which took exhaustive evidence, saw nothing in it but a difference of opinion between parties who could not be coerced into agreement by any fair application of a law.

The theoretical basis of the question is set forth by the authors in the analysis of what they call interdependent prices. This is the special feature of retail on which the whole issue turns. It is different from the simple prices of single products, and also from prices of joint products. In the latter case, there is a limit set by the specific costs. But the retailer may sell an article without reference to any loss on that article, if his purpose is thereby to get a high profit on some other article. The article whose price is cut is used as a "leader" to the general trade of his shop, and especially to substitutes of his own make or procuring or to high-profit articles of another sort. The producer has, in fact, to reach

a large part of his market through the hands of his own competitors, and this fact is more important with the growth of large retailers who integrate backwards. But why does he consider that he stands to lose if his prices are cut? Here the authors have wisely refrained from too full an endorsement of the producers' argument. Some might stand to gain by the force of advertisement and a larger volume of sales. The switching of the buyer to other things is not equally easy in all cases. On this point, the authors supply a most interesting study of retail practice and service. There is no quite general argument that applies to all cases, but there is always the loss of co-operation between producer and distributor, and the danger that good-will suffers through the suspicion of the consumer that there is something the matter with standard articles when they are retailed at various prices. On this fact of consumers' psychology, the authors lay less emphasis than did the British Committee. I think, and the authors sometimes imply, that the producers' view on this matter starts from the position of the independent or pure retailer. If he cuts a price as a lead to his general business, he makes it necessary for others to do the same, so that they lose interest in pushing sales, and if various independents use different articles as leaders the trade becomes disorganised. To protect the independents against each other, the producers prefer a general rule of prices, and this is extended on principle in two ways. It covers all retailers, and in England it covers the co-operative method of a general dividend, even though in the latter case no particular producer could suppose himself prejudiced.

The producers' case in this respect is based on a long experience of the way the retail trade works, and the British Committee found a great consilience of evidence on the loss of good-will and of sales if final prices of branded goods are left free. The authors of this book point out that in fact the maintenance policy amounts to an attempt to obtain the advantages of integrated selling while retaining the independence of retailers as regards the greater part of their trade. A producer who sold through his own shops would fix his prices without cavil, and if some of these were leaders to others, that arrangement of prices would be made by and react on himself. He would protect his good-will by uniformity of sale prices, or by control over any local or temporal conditions of variation. When he sells through common channels of distribution, the consideration of good-will is the same, while the profits which the cut prices are to offset may be on the sale of someone else's goods. It is perhaps the best summary to say

that trade experience has seemed to producers of the goods affected to make it undesirable that they should leave retail selling to be adjusted to retailers' interests alone.

The authors conclude that price maintenance is a fair practice, but of course this leaves it to the producer to decide how rigorously he will apply it. The argument on the methods that may be used reads strangely in England. They are so beset by the contagion of the Trust legislation that they have to plead elaborately on behalf of such practices as selling contracts, or the refusal to sell. There is no reason to bar a vertical price contract which would not bar an integration. Refusal to sell depends on adequate means of information as to price cutting, but the ordinary (as it would seem to us) methods of getting information come in America under the suspicion of collusive action as regards prices. It even appears that, if a producer has refused to sell to a retailer, but subsequently resumes selling to him, he is open to the suspicion of having received an assurance to maintain prices. The Stop Lists, which the British Committee regarded as a quite ordinary procedure, would not at present be allowed in America. To an English reader, therefore, the plea of the authors for a reasonably elastic right of refusal to sell, and a reasonable control over "bootlegged" supplies, seems to show that there is too much law about, and makes it really difficult fully to appreciate the substance of the concluding chapters. It seems such an anti-climax that so lengthy a case has to be made for what producers on this side would think so little. The authors might fairly reply that on this side the findings go very far in the other direction, and that such a general boycott and Stop List as is permitted in the drug trade is more than ordinary price maintenance.

What the authors say on the elasticity with which refusal to sell should be applied was fully borne out in the British inquiry. For this reason it rejected the plan of making notices run with the goods, as in the case of patented articles. Price maintenance is chiefly of value in creating good-will between producer, retailer and purchaser, but it is not in the interest of any of them that it should be made so rigid that it can in no conditions break down. There are exceptional times and varying markets, for which producers in England have in important industries willingly allowed. There are chain shops which in some places maintain prices and in other places cut them. Those industries which make a rigid rule may lose somewhat, both financially and in co-operation with their clientèle, but it is their own affair.

The authors point out that in America the impulse to price

maintenance came from the retailers, and in England they are supporters of it. The question then arises, by what means the economies of better retail organisation are to be handed on to the consumer. Partly through the prices of unbranded or bulk goods, which are probably 80 per cent. of retail trade, partly in service, but partly also in the pressure against high margins which comes from the competition of retailers' own brands. In another aspect, the question may be how the consumer gets any advantage of location, but I cannot see that this is very important, and no one is aggrieved if he pays for the latest novel the same price in Aberdeen as in London. Such evidence as was taken by the British Committee showed that the retail margins on price-maintained articles were not generally higher than on others, and were often lower; this volume gives a similar result for Germany.

The authors would like to see the practice of price maintenance placed under the supervision of an Inter-State Business Commission. The Federal Trade Commission appears to have lost authority, and the valuable plan of trade conferences to have fallen into disfavour. It is not easy for an English writer to perceive the causes of this, and it is unfortunate just when we are looking for foreign experience as a guide to any kind of Tribunal such as has been repeatedly suggested by public and private inquiries on price fixation and control. The English courts are reluctant to discuss the economic issues, and prefer to consider these matters from the standpoint of legal rights. I think that a Tribunal on trade practices will have to be set up, whose findings on economic aspects should be authoritative in a Law Court, since price maintenance is only one of the number of practices which the strategy of competition is devising. A continuous jury can see the whole problem better than an intermittent series of Committees. For America, the authors would like a Commission comparable in authority with the Federal Reserve Board or the Inter-State Commerce Commission.

The authors of this book have set a particular problem in a rich background of economic research, and have made a notable contribution to our knowledge of the retail trade.

D. H. MACGREGOR

The Scottish Investment Trust Companies. By GEORGE GLASGOW. (Eyre and Spottiswoode. 1932. Royal 8vo. Pp. xii—204. Price 50*s*.)

This is a companion volume to the well-known *English Investment Trust Companies* by the same author. The arrangement is

similar, consisting of ten short chapters on "the Scottish Contribution to Investment Trust Company Finance," followed by statistical details of each of the seventy-one companies. In the former part the author refrains from repeating the analysis of the principles of the investment trust, concentrating rather on the contribution of Scotland towards its development. The diffusion of risk "geographically amongst different countries, generically among different kinds of undertakings or securities and denominationally among bonds, debentures, prior charges and so-called equities" was recognised more than fifty years ago in Scotland. At the same time the spreading of risks as between different countries was not fully accepted at the beginning, since the titles of the majority of the companies formed between 1873 and 1884 indicated a preference for American investments. Later the articles usually impose a limitation on the amount which may be invested in any one security, and this is usually understood to imply a reasonable geographical distribution, though Scotsmen are much too wise to lay down any fixed rule.

The chief difference as between Scottish and English investment trusts is the practice of many of the former in accepting terminable debentures, a practice which is analogous to the bond on heritable property. Also, Scotland seems to have worked towards a standard capitalisation which, in recent years, has tended towards a division of the share capital as to three-fifths preference and two-fifths ordinary stock. Borrowing on debentures is usually up to an amount equal to the share capital, in addition to which temporary borrowing may amount to 10 per cent. or 20 per cent. of the share capital. In defining the ratio of borrowing some companies add their reserve fund to the share capital or define a separate proportion of its amount. Another difference is that of seventy-six English Companies forty-four publish lists of investments. Only one of the seventy-one Scottish Companies issues such a list, and feeling in Scotland is strongly against the practice, which extends even to the general classification of investments. For this practice strong reasons are adduced. On the other hand, most companies now give an indication of the excess or deficiency of the market value of their investments over their cost. At this point one is inclined to question one of the principles on which Mr. Glasgow's excellent tables are compiled. Quite rightly, he gives the Reserves of each company, which he calls the "Visible Reserve." Besides this is another column, "Inner Reserve," being the difference between market value and the book value of the company's investments. One

hesitates to call this a reserve. In the case of no less than sixty of the companies analysed this so-called inner reserve is negative, which means that the excess above book value has disappeared. Where the method of accounting adopted is on the basis of devoting profits on sales of stock to the writing down of investments, this involves at least that such profits have been wiped out. In a number of cases the negative balance also extinguishes the visible reserve and, for the time being, makes an inroad on capital. For instance, one company has a negative "inner reserve" of £519,207. If the visible reserve be deducted, it remains at £421,868, as against a share capital of £750,000, or including debentures £1,500,000. It would appear that in such circumstances the title "inner reserve" is a misnomer—"surplus or deficiency on valuation of investments" would be less misleading.

In the practical affairs of life, principles are to be judged by their consequences, and, by this criterion, the management of Scottish investment companies is deserving of great praise. Of English companies there were eight which during the war did not reduce the dividend on their ordinary or deferred stocks and four others increased it. From the smaller number of Scottish companies fourteen maintained their dividends during the same period and seven more increased them. Turning to the crisis of 1929–31, taking the average dividends of 1929–31 as compared with 1928, out of these twenty-one companies eleven maintained their distributions, eight increased, and two reduced them. (It is an oversight that at p. 28 Mr. Glasgow says that Appendix III gives particulars of these twenty-one companies, whereas the actual list deals with only sixteen.)

So far the record is very favourable, but there is always the risk of dealing with selected cases, and, after all, there remain fifty companies. Mr. Glasgow dismisses their record by saying they have not had time "to dig themselves in," meaning that a large part of the success of Scottish investment companies consists in the accumulation of reserves out of income, which, after the lapse of years, yields an increasing income, since in well-managed concerns this reserve increases faster than the dividend. This cautious policy, added to prudent investment, accounts for the success of the Scottish investment companies. There is, however, more in the position than this. Even in so far-seeing a country as Scotland, there is a tendency to form investment companies at the wrong point of the credit cycle. An inspection of the dates of flotations shows that the majority of companies are registered not long before a crisis. It follows that, when the storm comes,

they have no reserves to help them in meeting it. In addition, investments are purchased at relatively high prices. If, on the other hand, investors took their courage in their hand immediately after a crisis, and subscribed new capital either for an existing company or for a new company, investments would be purchased at low prices, opportunities would arise for profitable exchanges of securities and a moderate "visible reserve" would be built up before the next crisis came. In actual practice the opposite course has been adopted. From 1873 to 1887 eight companies of this class had been formed in Scotland. Between 1887 and 1891 eight more were constituted. Then came the Baring Crisis, and from 1896 to 1906 only four companies were registered. From 1907 to 1914 there were sixteen promotions—the largest numbers being in 1910 (four) and 1914 (three). From 1915 to 1922 there were none. Between 1923 and 1930 there were no less than thirty-five, disposed almost completely symmetrically, *i.e.* 1923, one, 1924, five, 1925, four, 1926, five, 1927, nine, 1928, six, 1929, four, 1930, one. The position of some of these companies, especially those of most recent formation and which have a high proportion of their total investments in ordinary shares, must occasion a considerable amount of anxiety to their directors. At the moment some are in the position that present market values show a depreciation on cost which leaves nothing for the ordinary stock. Behind this is the character of the investments and their capacity to participate in the eventual recovery. An instructive illustration of the possibility of rehabilitation—even where at present prices of stocks it would appear that the value of the ordinary or deferred stock has been wiped out—may be deduced from one of Mr. Glasgow's tables. This is the case of the Edinburgh Investment Trust, Ltd., which was registered on March 1, 1889. It had not time to establish itself before the Baring crisis. In 1895 and 1896 it was able to pay only 2 per cent. in each year. Its visible reserve had fallen from £20,760 in 1892 to £447 in 1896, its ordinary stock touched $45\frac{3}{4}$ in 1896 and, worst of all, the income available for that stock in the same year was only $1\frac{5}{8}$ per cent. Yet in 1931 this company paid 12 per cent., the ordinary stock averaged over 200 and there was a visible reserve of £300,664. The true position was much better than this, for there had been two stock bonuses, and the dividend on an original investment of £100 would be in the vicinity of 30 per cent., while the market value of the stock with bonus additions, even at the reduced price of 1931, would be over 500.

There is one column in Mr. Glasgow's tables that may mislead

the non-expert reader, namely that headed "% earned," when he sees occasional figures of 30 per cent. and 40 per cent. The percentage refers to the amount available for the ordinary or deferred stockholders; and, while this percentage is not usually so large, it frequently exceeds 10 per cent., except in the case of companies recently formed. Two facts have to be borne in mind: the first that the ordinary capital is only about one-fifth of the total share and debenture capital, and that the older companies have large reserve funds, the whole income from this, as invested, being available for the ordinary stockholders. For instance, the Alliance Trust (formed in 1888) has a visible reserve of £2,152,064 against £1,000,000 ordinary stock and the First Scottish American Trust (1879) one of £302,612 and ordinary stock of £160,000. How the principle works may be seen by a rough analysis of the Edinburgh Investment Trust, already mentioned. It is fortunate in its low prior charges, debentures at 4 per cent. and preference at 4½ per cent. The tables show 14½ per cent. available for the ordinary stock in its present form in 1931. Adding the visible reserve to the debentures and share capital, the return all over appears to be 7 per cent. only. Assuming that there have been profits, made in former years in excess of losses and now represented by income-yielding investments, the return would be lower.

In fine, it turns out that the whole system depends on two central points—the building up of a reserve fund from income and prudent management. It is based on a wide diffusion of risk, and the need for conservative management is shown by the fact that in 1931 there were only ten companies which could show that the market value of their investments was not less than their book value.

W. R. Scott

British Trade and Industry Past and Future. By G. D. H. Cole. (Macmillan. 1932. Pp. xxiv + 466. 16*s.*)

Essentially Mr. Cole is what in the seventeenth century would have been called a projector: his mind is fertile of plans. But he has many other rôles, and it is in that of the historian that he appears in the first half of this volume. It consists of a careful and detached study of British trade from the eighteenth century to 1930, illustrated by charts and tables to which one will frequently turn in the future for reference.

Mr. Cole traces for us the rise of the export trade, with its early specialisation in textiles, the expansion that came with the development of coal and iron after the eighteen-forties, the increase of foreign competition in the last quarter of the century,

and the growth of economic imperialism in the pre-war decades. An uninstructed reader might assume from the account of British overseas investment (on pp. 62–4) that an export of capital must necessarily mean an export of capital goods. But, this apart, the survey of trends of trade is admirable.

In dealing with the world slump Mr. Cole argues convincingly that the disproportionate movement in the prices of agricultural, as compared with manufactured, products is a result, rather than a cause, of bad trade; and, though he urges that monetary factors have aggravated the special difficulties of Great Britain, he absolves them from prime responsibility for the world depression. His own explanation, however, is far from satisfying. Declaring roundly that the trade cycle is a myth, he rejects the logical aid that might have been afforded by some theory of fluctuations in general. He believes that the main cause is to be found in the fact that the purchasing power of American wage-earners and farmers has not been allowed to keep pace with the growth of production in recent years, and that there has thus arisen "a crisis of under-consumption." But, though he borrows an argument from Mr. J. A. Hobson, he does not develop the thesis in detail, nor does he introduce the refinements which Mr. Hobson has made in his recent writings. If the root of the trouble is to be found in the instability of American economic life the rest of us will be affected through the American market for our goods and through American foreign investment. And those who feel that the first step to recovery must be confidence leading to a revival of international lending will hardly subscribe to Mr. Cole's view (on p. 296) that it might do the Americans, as well as ourselves, good, if they were to lose at a blow the whole of their present investments overseas.

Mr. Cole's case against reductions of wages in periods of falling prices is open to the criticisms that it rests on an implied, but unproved, inelasticity of demand for labour, and that much of the same argument could be advanced against reductions of interest to the rentier, whose income, however, Mr. Cole would like to see drastically cut. High wages, we are told, secure "an appropriate and salutary distribution of purchasing power"; but how high wages must be set to achieve this end is not defined. We are, however, told that the best thing that could happen to the world would be an international agreement to raise wages, and that failing this rigidity of wages is a merit.

In the chapter on tariffs Mr. Cole comes down on the whole in favour of free trade, but an argument in the Preface is open to

question. He appears to believe that tariffs, by raising the internal price level may lead to a fall in the external value of a currency. Tariffs may either allow of a higher rate of exchange at a given price level, or raise the price level at a given rate of exchange; it is not legitimate to argue that a rise in prices allowed by a tariff at a given rate of exchange can itself be a cause of a fall from that rate of exchange.

Space will not permit of a detailed account of Mr. Cole's discussion of the present position of British export industries and of his proposals for their resuscitation. In most cases some form of national corporation subject to some degree of public control is prescribed; and doubts are expressed if even the discovery and development of new trades can any longer be left to private enterprise. He suggests that capital for these purposes as well as for the reconstruction of old industries should be raised through a National Investment Trust, which should borrow from the public and relend to industry—a proposal which, surely, must have the effect of increasing the volume of those fixed-interest obligations, or their equivalent, the existence of which, Mr. Cole admits elsewhere, is not the least of the barriers to a revival of industrial activity.

Detailed criticism of Mr. Cole's projects must, however, be left to others. To the present reviewer it seems that the world is suffering from too much, rather than too little planning, and that things might be no worse if economists returned to their function of interpreting the system, and showed less willingness, as a working man put it in conversation the other day, to carry the tool-bag for the politicians. But disagreement on fundamentals must not be taken as dispraise of Mr. Cole's work. Those who cannot accept his proposals, no less than those who can, must be appreciative of this able survey of a century and a half of British trade and of the penetrating comments with which it is enlivened.

T. S. Ashton

The University of Manchester.

Growth of Trade and Industry in Modern India: an introductory survey. By C. N. Vakil, S. C. Bose, and P. V. Deolalkar. (Longmans, 1931. Pp. 398. Rs. 7½ or 13*s.* 6*d.*)

This is an interesting but difficult book to review. India ranks sixth in importance in the world's trade, and her exports of wholly and mainly manufactured goods for 1931–32 were 23 per cent. of her total exports. There is, as is to be expected with a country of 353 million inhabitants, a large internal market for

Indian-made piece-goods. Of a total Indian production of 2561 million yards of cotton piece-goods only 98 millions were exported in 1930–31. The book under review is an introductory survey of the growth of Indian trade and industry mainly from 1860 to the present day, and in the course of sixteen chapters the chief imports and exports are surveyed. Professor Vakil (who is University Professor of Economics, Bombay) tells us that the work is based partially on the material of two theses prepared by two M.A. students who worked under him and also partially on material subsequently collected.

The view taken by the authors in the introduction is best described in their own words: "On the whole, it may be said that the share of India in the gains arising out of foreign trade must have been small; but the other countries have gained substantially by trading with India. This has been . . . due to the undesirable nature of our trade, namely, the export of raw materials in return for the import of manufactured goods, which has been detrimental to the interests of our industries" (p. 8). "The development of our foreign trade has, on the whole, been beneficial to some extent to the growth of our agriculture, but detrimental to that of industries. It has been wholly beneficial to the countries trading with India. A portion of the gains arising out of the growth of agriculture and some of the industries is appropriated by non-Indians, as some of the agricultural and manufacturing industries are owned and managed by foreigners. An additional portion goes to meet the foreign liabilities of India for trade purposes such as charges for shipping, banking, insurance, etc. When allowance is made for all these factors, it may be doubted whether the aggregate effects of the growth of our foreign trade have been for the good of the people of the country" (p. 10).

The authors accept as generally true that international trade is advantageous to both sides, to importers and exporters. They, however, cannot agree with Bastable that "a consideration of what is our proportion of gain is after all more a question of scientific curiosity than of practical importance." Both protectionists and free-traders will find it difficult to follow the authors in the conclusion to which they have come. "Protectionists," said J. S. Mill long ago in his *Principles*, "often reason extremely ill, but it is an injustice to them to suppose that their protectionist creed rests on nothing superior to an economic blunder." It is incorrect to say that it may be doubted, especially in the case of India, whether the aggregate effects of foreign trade have been

for the good of the country. "Back to Adam Smith and Ricardo" would be sound advice to the authors. Adam Smith, the best informed man since Aristotle, reminds us in a famous chapter of the *Wealth of Nations* that the gain has been in two directions at least. This is in fact admitted. It is shown that in the case of the export of oil seeds there is little home demand (p. 369), that in manufactured jute goods local consumption is "only about one-tenth of the total number of gunny bags that we export, and our consumption of hessian and sacking cloth is smaller still" (p. 182). In the American Civil War we are told that "Indian manufacturers of cotton goods were also at an advantage and got a good share of the new wealth that had poured into the country" (p. 127). The result, in short, has been an increase in Indian production or, in Adam Smith's phraseology, "an augmentation of industry." No one who has studied carefully the trends of India's foreign trade in the present century can be blind to the second advantage of India's foreign trade—the increase in the consuming power on the part of the masses of the people. Secondary desires have been diffused up and down the countryside. Hume. in his *Essay on Commerce*, puts it well when he says that foreign trade "rouses men from their indolence, and presenting the gayer and more opulent part of the nation with objects of luxury which they never heard of before, raises in them a desire of a more splendid way of life than their ancestors enjoyed." With the curtailment of imports, the curtailment of exports, *ceteris paribus*, would follow. The important question is whether the Indian farmer gains by having a foreign market, whether he stands as a producer and consumer to gain more by the establishment of home manufactures and a greater demand internally for his products? The authors believe that the growth of industries will relieve the pressure of population on agriculture "so that there may be a balanced division of labour between different sections of the people, in order to exploit the resources of the country for the ultimate good of the people themselves."

On p. 84 the authors speak of the salt tax as "a source of incalculable mischief" to the average Indian. This statement cannot stand examination. The tax burden has been worked out with care, and the burden is very inconsiderable. The carefully collected family budgets of the Labour Office of the Government of Bombay show that on an average the consumption of salt per head per annum is 12·6 lbs. and the expenditure on salt, including the tax, is a fraction of 1 per cent. only—0·36 per cent. per annum of the average expenditure of all grades of income. In other

words, a family of 4·2 persons earning 52 rupees per mensem spends only 3 annas per mensem on salt including the tax. The expenditure varies between 0·28 and 0·53 per cent. in the different ranges of income. Similar inquiries made with regard to family budgets in Sholapur (mill families) and in the Deccan (agricultural families) show that the average expenditure is 0·58 and 0·91 per cent. respectively. The Indian Taxation Committee (1926) rightly concluded that " If it is desirable to impose any tax on the mass of the community at all, there is much to be said for the continuance of the salt tax. The present rate of duty is appropriate and causes no serious hardship. The retention of the machinery for collection makes it possible to secure additional revenue with ease in case of grave emergency which should be the only ground for raising it." Unfortunately the salt tax has become a political question.

G. FINDLAY SHIRRAS

Indian Economics—A Comprehensive and Critical Survey of the Economic Problems of India. By Professors JATHAR and BERI. (Oxford University Press. Vol. I. Third Edition, 1931. Pp. 446. 7*s*. 6*d*. Vol. II. Second Edition, 1931. Pp. 583. 9*s*.)

IN purely quantitative terms the study of Economics has made amazing progress in Indian Universities in the last forty years, especially during the last two decades. Economics has won a place of its own in the University curriculum, and in most Universities has been divorced from history or moral philosophy. In a very real sense, too, it is no longer confined to the college classroom and text-book, but is to be found in the Government office, in the law court, in the legislature and, indeed, in the streets. The advance everywhere has not been in the line of Mill, Ricardo or Marshall, but in realistic investigation. The volumes under review belong to this latter class. In the course of twenty-six chapters such topics as the scope and method of Indian Economics, population, social and religious institutions, agriculture, industries, labour, foreign trade, transport, unemployment, the national dividend, currency and banking and public finance are skilfully dealt with. Ever since Ranade delivered in 1892 his well-known lecture on " Indian Political Economy " descriptive Economics has been extremely popular, and in most Universities in the honours courses special attention is given to these topics. It was Ranade who stressed in India the relativity of economic doctrine, and it was he who emphasised the importance of family and caste

rather than competition in determining one's position in life. The historical method has been commonly followed and, as elsewhere, as in Germany, this leads sometimes to a considerable degree of stagnation in Economics because of the resulting isolation from the movement of economic thought in other countries.

These facts are essential to the understanding of the present work. Indian Economics is defined as "a study of the present economic position of India from the Indian national point of view." A better definition is the authors' opening sentence, where it is described as "a study of the principal economic problems in India with an analysis of their probable causes and of any measures that have been or might be taken to deal with them." By the national point of view is meant that the touchstone is in all cases the material advancement of the Indian peoples. The authors cannot "consent to any sacrifice for the greater glory of the Empire of which we are a part, unless we are convinced that the sacrifice asked for is ultimately to the national advantage." But to explain things in terms of historical antecedents is hardly a complete mode of explanation.

While the authors have spared no pains in making the chapters, especially those on agriculture (which is by far the most important industry in India), as full of material as is possible, it is sometimes unfortunate that they have depended on secondary sources. Thus the chapter on "Population" contains out-of-date census figures, *e.g.* those of 1907 and 1911 from Mr. Brij Narain's *Population of India* (pp. 44, 47, 49, 50, and 53 of Vol. I). In the chapter on the "National Dividend" the figures of various writers are given, but the reader is left to decide what estimate is the most correct. Sometimes the reasoning is a little difficult to follow. In Chapter III, p. 38, we are told that "A highly industrialised and commercial country with intensive cultivation shows the largest density—for example, England and Wales (649) and Belgium (654)." On the following page it is stated that we cannot draw any inferences about economic position from a mere consideration of the average density of a country. On p. 49: "The proportion of female workers to the total female population in India compares favourably with most of the other countries mentioned above. . . . The large proportion of women workers, therefore, indicates that very few people in the country can afford the luxury of idleness for their women." In a footnote, however, it is stated: "For census purposes even a woman who is primarily occupied in domestic duties and gives only a fraction of her time to a remunerated occupation is counted as a worker." In Vol. II, p.

463, we are told that "if India had not swallowed up the gold and silver, the output of which had been enormously increased owing to the discoveries in recent times of new mines and improvements in the methods of extraction, a great derangement in the economic life of European countries would have been caused by a rise of prices," and on p. 465 it is said that "the utmost economy in the use of gold is necessary if the present disastrous decline of prices is to be arrested." Jains are said to be confined "practically to Rajputana, Ajmer-Merwara and neighbouring States" (Vol. I. p. 41). At the 1931 Census the number of Jains in India was 1,252,105, and almost half of this total was in the Bombay Presidency (including Native States) and Baroda. These and similar slips will doubtless be noted in future editions.

On p. 492 of Vol. II, on the Salt tax, it is stated that "essentially, however, the tax is undesirable," but we are not given proof of why this is so. "Though for practical reasons it may be impossible to abolish it immediately, this should be definitely recognised as the goal of public policy, and steady approaches should be made towards it. So long as the tax cannot be dispensed with, it should at least be maintained at as low a pitch as possible." Sir Arthur McWatters, until recently Financial Secretary to the Government of India, in a paper read before the East India Association on May 24, 1932, showed that the Salt tax is a good Federal tax. It is paid by all consumers in India, and it should be one of the most reliable assets of the Federal Government. "Unfortunately," he said, "it has been made an object of political controversy," and he quoted the views of the Punjab Committee appointed to explore new sources of revenue. The Committee was representative of all the leading communities in the Punjab. It made the following significant recommendation: "We have considered a proposal to levy a surcharge on salt. The majority of us, six to one, strongly favour the imposition of a surcharge of 50 per cent. on the present Salt tax, which surcharge should be paid to provincial revenues. The majority are of the decided opinion that so far as the Punjab is concerned the present Salt tax is not felt by any one, as its incidence on the poorer classes does not amount to more than a few pies per person in a year. They understand that the present tax has not been increased by the Government of India for political reasons. They consider that these reasons do not apply to the Punjab; and that a surcharge on salt, if imposed, would be widely hailed as a justifiable taxation which would cause no hardship even to the poorest classes."

On the title-page of these interesting volumes the expression is used that the work is "a comprehensive and critical survey of the economic problems of India." The authors in the main have undoubtedly succeeded, but there are places where considerations other than economic have, perhaps, warped critical judgment.

G. FINDLAY SHIRRAS

Indigenous Banking in India. By L. C. JAIN. (Macmillan & Co. 1929. Pp. 274. 15s. net.)

MR. JAIN'S book was a thesis approved for the Ph.D. in Economics of London University. It deals with the history and methods of indigenous banking in India, as well as with the defects and future outlook of this form of banking. Since the book was written, the Reports of the Royal Commission on Agriculture in India and of the Indian Banking Committee have been published. These official Reports cover the ground which Mr. Jain has covered in regard to rural finance, perhaps in greater detail and with greater sureness of touch. Nevertheless, Mr. Jain has succeeded well. His chapter on "The Methods of Indigenous Banking," where the *hundi* system is described, is of particular value to the student of Indian banking. It is doubtful if Mr. Jain is correct in attempting to show that a *hundi* is not quite an inland bill of exchange, as "one of its main functions is to enable one to get advances" (p. 72). Later, on p. 176, he indicates that "the *hundis* may be either pure finance bills or trade bills, the latter being against some produce or goods." In short, as the text-books point out, the *hundi* is an inland bill of exchange, and it does not approximate, as Mr. Jain thinks (p. 72), more to a cheque than to a bill, although, as he is careful to remark, it falls in legal phraseology under the category of a bill. It is either payable on sight—it is then a *darshani hundi*—or after a stipulated period—a deferred or usance or *muddati hundi*. There is a great harvest awaiting the economic historian's sickle in regard to the indigenous system that obtained from the sixth to the sixteenth century. There is much material both in Sanskrit and Persian that has not yet been explored. The East India Company Records at the India Office and similar contemporary sources have not yet been fully examined in this direction. It is to be hoped that Mr. Jain will be able to continue his researches in regard to these, as the gaps in Indian financial history are very great in this respect. The description of joint-stock banks in Chapter VI is hardly relevant in so interesting a book.

It is advisable to keep distinct the functions of the money-lender from those of the indigenous banker who receives deposits and deals in *hundis* in all questions relating to rural finance. It is often, it is true, a question of degree. "The indigenous banker," says the Report of the Punjab Provincial Banking Inquiry Committee, "finances trade and industry rather than consumption; the urban money-lender consumption rather than trade. Both banker and money-lender advance partly with, and partly without, security, but the banker more often with than without, and the money-lender probably more often without than with. The banker is generally particular about the objects for which money is required: the money-lender is less careful. A further difference, and one, no doubt, arising from the last two, is that most of the banker's clients repay punctually, and most of the money-lender's have to be pressed." It is preferable to keep a distinction between the two, as the problems awaiting settlement in regard to each are dissimilar. In regard to the money-lender, a scheme of debt conciliation on a voluntary basis has been recommended by the Banking Committee, and the desirability of undertaking legislation to secure the settlement of debts on a compulsory basis has also been suggested. The case for a simple Rural Insolvency Act in each province has been suggested by the Royal Commission on Agriculture, and the Banking Committee has suggested legislation on the lines of the Punjab Regulation of Accounts Act 1930, which imposes on creditors certain obligations in the keeping of debtor's accounts and the extension of the Usurious Loans Act of 1918, an Act which, speaking generally, has still to be learned by the subordinate judiciary and the up-country Bar in India. The question of the money-lender in any system of banking in India must be examined quite apart from that of the indigenous banker proper. Mr. Jain has not given perhaps sufficient emphasis to this aspect of the problem. In regard to the indigenous banker he suggests "that in every village and small town the indigenous money-lenders and bankers may combine themselves on the joint-stock principle, thus pooling their capital resources and forming themselves into indigenous joint-stock banks. The indigenous money-lenders and bankers, it is expected, will act as the directors and paid employees of the bank, besides earning dividends on their shares and interest on their deposits, if any" (p. 238). This suggestion is hardly practicable, as it is asking for the moon to expect these persons to combine in the way proposed. A real and lasting solution will come only by the spread of education. So far as money-lenders are concerned,

the object is to prevent usury and to reduce rates, while at the same time to prevent the dishonest practices that at présent occur. No system of licensing, voluntary or compulsory, will solve the difficulty, and the suggestions that have been made above seem the best. In regard to indigenous bankers, on the other hand, such as the *chettis* in Madras and Burma and the Multanis, a different line of reform seems essential. It must be remembered that the indigenous banker performs a very useful function in the Indian banking system, and deserves every encouragement. Since 1860, owing to the development of joint-stock banking, his position is not what it was, and of the 2500 towns of India, joint-stock banks and their branches exist in less than 400 places. Steps, therefore, must, as Mr. Jain rightly suggests, be taken to strengthen the position of indigenous bankers. The best proposal —one which is supported by the Banking Inquiry Committee— is that he should be brought, along with joint-stock and co-operative banks, into direct relations with the Reserve or Central Bank, so that adequate re-discount facilities may be granted by the Reserve Bank when created. Facilities for remittance of funds at the same rates as are exchanged to joint-stock banks should be given to such indigenous bankers as are included in the schedule of member banks of the Reserve Bank. There is a great scope in the banking system of India to-day for indigenous bankers engaged in banking proper. It will be for the Reserve Bank to prescribe the standard which indigenous bankers must satisfy before they receive the concession. For example, these bankers must keep proper accounts, and these accounts must be audited annually by recognised auditors, and their books should be available for inspection and audit by the Reserve Bank.

G. FINDLAY SHIRRAS

The British System of Social Insurance. By PERCY COHEN. (Philip Allan. Pp. 278. 12*s.* 6*d.*)

THIS is a necessary book. Mr. Cohen brings together in a reasonable compass all that the inquiring student needs to know of our Health, Pensions and Unemployment Insurance Schemes. He also devotes two additional chapters to the law of workmen's compensation and to the various types of industrial assurance administered by commercial houses or by collecting societies. The book is, in fact, the only up-to-date work of reference covering this range, and it fills an inexcusable gap in the literature of social economics. A similar text-book dealing with our public health and education services and our modern public assistance system

would not come amiss, for these are just as much a part of the British system of social insurance as the five contributory insurances selected by Mr. Cohen.

Technique is a vital factor in social administration. For too many years it has been left almost wholly to officials and to interested parties such as the Approved Societies. No one else has known enough to criticise. Not since the spacious days of 1909 (following the report of the Poor Law Commission) has the subject been adequately ventilated and discussed. We have been content to will the ends and let who will devise the means. That is partly the reason why, to-day, our social services are patchy and inconsistent one with another. Scheme has been added to scheme without any coherent view of the place which each should fill in an ordered system, and without sufficient *disinterested* criticism of technique. And how long is it since a British Cabinet sat down to review our social policy as a whole—which services should be national and which local, which free and which not free, whether the contributory principle was justifying itself, and, if so, could it continue to depend solely on the existence of a contract of employment?

But all this is going beyond Mr. Cohen's scope. He is writing for the elementary, not for the advanced, student. And rightly, because the latter scarcely exists. Mr. Cohen is neither speculative nor critical—except in one respect. He is a bit of a party politician. He tries to show that the contributions of Conservative Governments to the immense structure of our social legislation have invariably been inspired, whereas those of "Socialist" Governments have not. The truth is, of course, that there is not a pin to choose between them. But the political note is by no means obtrusive, and the book, as a whole, is to be commended.

R. C. DAVISON

The Potash Industry, a Study in State Control. By GEORGE WARD STOCKING. (New York: Richard R. Smith, Inc. 1931. Pp. x + 343. $3.)

POTASH is found at present in five districts in Germany as well as in the area transferred to France after the War, and under widely varying conditions both as regards its chemical character and its physical occurrence. Under a system of free enterprise speculation "on a free and easy scale" was invited and was strengthened by the fact that once created capacity tends to remain. "Over-capacity is, therefore, likely to prove a normal characteristic of potash mining under a system of competitive control." Increase of output, by reducing overhead charges, will tend to

reduce unit costs, but reduction of prices does not directly affect consumption, which depends in the main on changes in farmers' habits, stimulated by propaganda. Therefore, "competition must prove an awkward and ineffective system of control for this mineral resource." Germany has always been under the influence of mercantilist doctrines, but there is "a marked distinction between the earlier and the latter-day mercantilism as it has manifested itself in Germany. . . . Under the former the State utilised business for the advancement of State ends, whereas in the latter the business man has utilised the State for the advancement of business ends." The earlier idea was particularly characteristic of the period 1680–1786, but was still in force in the middle of the nineteenth century, when the potash industry came into being as an offshoot of salt-mining. Ideas of industrial Liberalism, derived from England, penetrated Germany about that time, and the principle of freedom in mining was introduced, guaranteeing to the finder a lease in case a mineral was discovered. Most of this excellent book is taken up with a historical account of the clash between the two opposed principles of State control and free enterprise in mining, and of the economic consequences that ensued.

Potash mining was begun in 1861, and for the next thirteen years was conducted only by the governments of Prussia and Anhalt, but the refining and marketing of the mineral were in private hands. Prices were high and the factories made large profits, attracting new capital, so that in 1865 there were eighteen establishments. Competition and technical improvements brought down prices from 32 marks per 100 kg. for 80 per cent. potassium chloride in 1863 to 12 marks in 1873, with resultant bankruptcies and a weak price agreement which was dissolved in 1877. Potash mining had been thrown open to the public in 1865, and in 1877 there were two private mines besides the two State mines, and any one of the four could readily have supplied the market. The State income from the mines was imperilled, and the first "fiscus cartel" for the limitation and apportionment of output was set up in 1879. This assurance of profits attracted fresh enterprise, in which the Prussian State took part in order to maintain its quota for treasury purposes. Up till 1910 reorganisations of the Syndicate aimed at stronger State control, and the factories in their turn established a central sales office which continued under varying forms till 1909. One special concern of the Prussian Government was to secure favourable prices of potash for German agriculturists, the Syndicate remaining free to fix prices for

exports. Fortunately for the industry there was an enormous expansion of demand which enabled the Syndicate to raise prices. "These numerous developments—increasing prices, increasing demand, decreasing costs in the developmental processes, the Syndicate's endeavour to prevent outsiders from sharing in the bounty, the speculative possibilities of hidden treasure—all made for a wild hunt for potash." The end was confusion. "The winds of competition sown by the State itself threatened to become a whirlwind of Syndicate destruction. Hitherto, as new works appeared on the stage of action, increasing demand had made ready for them a productive rôle. New quotas could be carved from increased sales. From 1900 forward, although sales increased continuously, potash producers increased at an even more rapid rate under the exigencies of free enterprise. Quotas were assigned to new companies at the expense of older works already in the Syndicate—works, incidentally, which had built up a productive capacity based on undiminished quotas. Entrance of new works into the Syndicate meant, therefore, an increasing burden upon those already within the fold. Failure to admit new works, however, meant price competition, a demoralisation of the market, and a loss of sales."

A bitter fight for the American market produced the Potash Law of 1910, which placed the industry definitely under the control of the German Imperial Government. Maximum domestic and minimum export prices were fixed till 1913, production was allocated in definite proportions subsequently variable by a committee, and excess production was subjected to a tax. Quotas could be transferred and new companies were only entitled to a quota if they had a certain minimum annual capacity. But the figure fixed soon proved too small to be an effective limitation of entry. The fight for quotas soon took many new forms, and "under the tolerant influence of a paternalistic measure which aggravated the evils it was designed to curb, excess capacity in the potash industry continued its skyward flight." The European War brought additional troubles, and in 1917 only 100 out of 206 shafts were in normal operation. The Peace broke the German monopoly of potash by transferring the rich Alsatian mines to France. The Socialist Government attempted to combine the principles of ultimate State control with immediate administration of the business units by business men. The Potash Law of 1919 set up a Potash Council representative of producers, consumers, employees, and the State, and three boards to deal with quotas, wages, and propaganda, together with two appeal boards for

quotas and wages; the first of these boards was also to examine into the efficiency of individual mines. Finally, a decree was issued in 1921 prohibiting the sinking of new shafts till the end of 1928 and regulating the continuance of quotas. The monster of unrestricted competition was thus got rid of. Inefficient mines were closed down, an agreement was made with the French mines, the Prussian treasury was relegated to a subordinate place, and all along the line business enterprise succeeded in transforming a mercantilistically controlled syndicate into a syndicate controlled for business ends.

The author devotes the third part of his book to an elaborate comparison of the fruits of mercantilist control and business control, to the advantage of the latter, but we cannot go into that now. He does not think the industry has been "socialised" and he holds "that the stabilisation in foreign markets at which the Franco-German accord aimed has been achieved, and that it is price-stabilisation at levels higher than would have been likely in the face of competition." There still remain to be faced in the future problems of capacity, of the disposal of by-products, and of the competition of other fertilisers. Finally, there is a discussion of the possibility of recreating an American potash industry similar to that which existed during the War, but of this Mr. Stocking is only moderately hopeful. H. W. MACROSTY

Prospettive Economiche. Twelfth edition. 1932. By G. MORTARA. (Università Bocconi di Milano. Pp. xix + 615.)

IN the twelfth edition of his well-known and admirably produced *Prospettive Economiche*, Professor Mortara traces the fortunes of and discusses the outlook for cereals, wine, olive oil, coal, petroleum, hydro-electric power, silk, artificial silk, flax, cotton, wool, iron, copper, maritime transport, railways, money, and public finances. In each case comparisons are given for recent years and for pre-war years, and the statistical tables relate to all the relevant countries of the world for which information is available, estimates being given of the aggregate of world production.

The survey does not make cheerful reading, dealing as it does largely with the acute slump conditions of 1930–31, and the forecasts of the future are weighed down in most cases by the existence of vast accumulations of stocks and by the general contraction of demand. The few bright signs of possible improvement afford scanty comfort in the face of political uncertainties and the growing excesses of economic nationalism.

Professor Mortara points out that Italy has been less seriously affected by the world economic crisis than the majority of other countries. "The special characteristics of the Italian economy in which forms of activity which satisfy directly and national requirements predominate, the fact that our population is accustomed to a modest standard of life, the widespread habit of saving and mutual aid, and the efficacy of Government action, have contributed to lessen the evils of the crisis and to avoid the spread of an exaggerated pessimism—itself a factor causing greater depression. . . . An active policy of public works has reduced unemployment, paving the way at the same time for a more perfect economic adjustment of our country to the better days which are to come. . . . The corporative organisation has on the whole justified itself. . . . The State has resisted all attempts that have been made to cause it to intervene directly in production, and has adhered to the policy that its fundamental sphere of action lies in the disciplining and co-ordination of private economic activities. We hold that in so doing it has pursued the course most likely to conduce to the national interest and to bring about conditions favourable to the attainment of effective international agreements." It is, in fact, in the development of international economic agreements, which presupposes in his view the systematic intervention of the State in the co-ordination of national economic activities, that Professor Mortara sees the only really hopeful remedy for the economic evils which at present afflict the world, though he realises that these will be difficult to bring about and necessarily slow in their action.

C. W. GUILLEBAUD

Probleme der Wertlehre. Edited by L. MISES and A. SPIETHOFF. (München: Dunker and Humblot. 13 *m*.)

THIS collection of essays on the Theory of Value offers a very convenient presentation of the contemporary condition of pure economics in Germany and Austria. The Austrian theory of subjective value, still proceeding in the tradition of Menger and Böhm-Bawerk, but considerably elaborated in recent years, occupies the centre of the picture; its opponents are numerous and important, but they rarely escape from its influence. In this book Viennese orthodoxy is represented by Professor Mises, Dr. Morgenstern, and Dr. Vleugels; while Dr. Furlan prefers the Lausanne approach, but is perfectly conscious that he is in fundamental agreement with the Austrians. The orthodox do, indeed, set a good example in tolerance; the theory of value has travelled

a long way since the days of Jevons, Walras, and Menger, but the schools which derive from them are only "variants," "Kinder der gleichen Mutter," between which there is no irreconcilable contradiction. Indeed, it seems possible to trace here signs of a very close *rapprochement* between Lausanne and the newer Austrians—a development which is pregnant of great possibilities.

Of the opposition, Dr. Kromphardt contributes an ingenious and candid defence of Cassel; but he does not seem to meet the central difficulty—Cassel's "normative" use of the Lausanne equations. Professor Liefmann's and Professor Gottl's objections to the Austrian theory seem little more than verbal. Professor Spann contributes an outline of his remarkable system. Finally, Professor Oppenheimer and Professor Zeisl represent Marxism, though of very different kinds. Professor Oppenheimer pours his blessing upon the classical economists, apparently because they held the Labour theory of value; while Professor Zeisl, so far as pure economics are concerned, seems to be in astonishingly complete agreement with Professor Mises, though one gathers that his application of the subjective theory would be widely different.

J. R. Hicks

London School of Economics.

American Economic Thought in the Seventeenth Century. By E. A. J. Johnson, Ph.D., Assistant Professor of Economics, Cornell University. (London: P. S. King and Son, Ltd. 1932. Pp. xi + 292. Price 12*s*. net.)

To trace the development of economic thought in a young community occupying a virgin soil and equipped only with the power of its own hands—such is the attractive study to which Dr. Johnson invites us. With this purpose he has ransacked the contemporary literature both of religious admonition and of business precepts and has woven all this scattered material into a quilt, which indeed is patchwork but yet in the highest degree satisfactory. Robinson Crusoe did not tackle the problems of his island without some aid derived from outside civilisation, and the early settlers of New England and Virginia brought with them a mental equipment and ideas rooted in the remote past. As Dr. Johnson says in his preface, "the economic thought of the American seventeenth century is important in itself as one of the last outposts of mediæval economic thought. The Reformation created renewed interest in the inter-relation between Christian

ethics and economic conduct. Puritan leaders hoped that, in a new world, all economic activity could be made to conform with a moral pattern."

It was a matter of common belief that the State should exercise an intimate control over the economic life of the community, and " the colonial records are literally cluttered up with economic legislation." From the very beginning it was recognised that the first duty of the local government was to see that its citizens did not starve; agriculture was fostered, especially for food supply, and many warnings were given to Virginia against the danger of devoting itself to the lucrative production of tobacco at the risk of food scarcity. " Although regulation of the economic activity of the individual was highly paternalistic, it was essentially repressive rather than assisting. Laws were designed to restrain excessive expenditure, excessive prices or excessive wages." The mediæval ideas of a just price and a fair wage were taken over, but applied rather to control the seller of goods or labour than to ensure that he should have a fair reward. The ideas of the study in due course shattered against the facts of the market, for, as the magistrates said in one case, " a certain rule could not be found out for an equal rate between buyer and seller, though much labour had been bestowed in it and divers laws made, which, upon experience, were repealed, as being neither safe nor equal."

Colonisation was advocated in England under the mercantilist ideas that foreign trade was a means of enriching the country and that a nation and its colonies could become a self-sufficient economic entity. The colonies were to supply the mother country with necessary commodities and to produce also such goods as fish, salt, and timber that entered into international trade. The early American writers were also mercantilist, but they took, as a rule, little stock of the advantages of colonies to England. Shifting the emphasis altogether, " in the order of their relative importance, four functions seem clear: first, refuge from economic oppression and the provision of economic opportunity; secondly, opportunity to regulate economic matters in accordance with religious or moral ideals; thirdly, a solution of the English population problem; and, lastly, provision of goods desired by the mother country." The colonial attitude towards trade was " strangely paradoxical." For whereas the regulation of colonial trade by the mother country was condemned as ultimately injurious and unwise, the several colonial assemblies attempted to regulate their domestic trade by profuse and minute legislation.

These laws embodied, "especially in New England, a great many mercantilistic ambitions: regulation of trade with the view of building up an economically self-sufficient political unit. But whether traditional, or politically purposeful, the seventeenth century extensively regulated trade. The export of foodstuffs without license was forbidden, as was the export of money. Profits were limited by legislative maxima; markets were established and supervised. The quality of goods brought to market was specified and defined, the "exposure" of defective goods prohibited, and provision was often made for a time limit between the date of importation and the date of sale, so that all prospective buyers might have notice. 'Staple' articles for the export trade were defined legislatively by most of the colonies, and export monopolies were created by the colonial assemblies." And so on, with the familiar regulations borrowed from England against regrating, forestalling, and engrossing. Some of the writers held different views from the legislators: "Liberty, said John Smith, increases trade and trade enriches the state; in the long run, low customs are more profitable than high duties."

The American colonists had a long experience with produce money, and John Woodbridge well brought out the advantages of "money" (in our sense) as generalised purchasing power and as saving time in exchanges. "Money," he said, "is that One Thing, which as a Medium of Trade answereth All things. For where it is in plenty no Buyer will be bound to one Person, or Market; nor purchase Credit at the Grantor's price; nor be necessitated to become servant to the Lender, if he have money to answer his occasions; nor will run the hazard of Trusting." He was an advocate of paper money in the shape of bank bills (commodity or land bank) which were of "real, durable, and secure value," being based on goods or land, whereas treasure "allures an Enemy and is covetously hoarded up," besides being subject to wear, adulteration, or loss. Mather and Blackwell also defended the Massachusetts bills of credit as currency, for they were secured on "the credit of the whole country"; moreover, as they were in the place of specie, goods would have to be exported in payment for imports, thus preserving a "favourable balance of trade." The paper-money enthusiasts were eloquent on the stimulus to be given to trade by abundance of money; our modern inflationists have few new ideas! Discussions on banking followed closely the debates in England that preceded the founding of the Bank of England. Three projects, put forward by Woodbridge, Blackwell, and Budd, are described in a most interesting chapter. Wood-

bridge's plan was cumbersome, but Blackwell's was of importance. Besides embodying the principle of a land bank, he contemplated the provision of capital by the bank partners, and the issue of bank bills against deposited land mortgages or staple goods (to one half or two thirds of their value). These bank bills were to be in various denominations, equivalent apparently to our bank notes. The storehouses for the goods were to serve as continuous open markets.

Enough has been said to show the interesting matter contained in this book. It forms a useful supplement to English economic literature of the seventeenth century, and, from another point of view, exemplifies at once the fertility of the human mind and the antiquity of ideas. Few of the proposals put forward by the pamphleteers of three centuries ago are quite dead to-day.

H. W. MACROSTY

The Economic History of England (1760–1860). By A. REDFORD. (Longmans. 1931. Pp. 221. 3*s*. 6*d*.)

DR. REDFORD's book appears to be intended as a member of a new series, "The Economic History of Great Britain," of which Principal J. F. Rees is the general editor, and the intention of which is stated to be to correct the generalisations of popular text-books in the light of recent research and to "incorporate the new conclusions [of the monographs] in a continuous account of economic development." This account is to be rendered in volumes by several hands and in a form to reach the general reader as well as the academic student.

About the possibility of accomplishing both the correction of current generalisations and the provision of a good summary of modern research for the use of students, within the limits of the same treatment, one may perhaps feel a little doubtful. Some existing generalisations seem to require replacement rather than correction. Perhaps it is less the unity of a narrative or digest than the more fundamental unity of subject-matter obtained by establishing general relations among the facts as ascertained, which is the lack of economic history at the present moment, without a remedy for which, the really satisfactory and illuminating guide for students can hardly be constructed.

However, even if new bottles are wanting, it is only necessary to admit that wine must still be carried, to acknowledge the merits of this extremely concise study as an introduction to the main results of recent work, its virtues in this respect being about in inverse proportion to its size. Dr. Redford covers in

seventy thousand words "the most controversial century in the economic history of England" in a way which gives his book superiority over every other introduction of similar scale, and over some works that are bigger. The material is intelligibly arranged, if a trifle conventionally, among very manageable chapters. Notes are kept down to a minimum; but there is a bibliography, which is more useful to the average reader, and very well balanced, as indeed is the whole of the book. In the allotment of space among topics, the scales are fairly held, as between agriculture and industry, foreign trade and finance, and between regions, and among industries. However, there is no account of the beginnings of foreign investment in the age succeeding Waterloo, which seems no unimportant part of the economic history of the country at that time, and can make good reading. The description of particular industries derives support from recent special inquiries: from the investigations of Mr. Ashton and Mr. Sykes into the eighteenth-century coal-trade, for instance, and of Dr. Roll into the records of the Boulton and Watt firm. Even the account of the cotton industry, upon which so much has been done, takes on further satisfactoriness from the extraordinarily effective research of Mr. Wadsworth and Miss Mann. The general tendency of the treatment will be to push towards the back of the student's mind the notion of special importance residing in the changes of organisation and method within any particular industry and to bring to the front the general process of industrialisation, in which the industrial transformations of the 1760–1860 period take their place as a phase: perhaps not a very well-marked phase, but one of ponderous developments. Among points in the general treatment which seem particularly neatly explained are the account of the rise of modern business associations, for price fixing and other purposes (46–51), of the agrarian distress which followed the French wars (97–102), of the progress of railway building and amalgamation and the questions of public policy that arose out of them (187–197), of the development of company law (166–169), and of the process of the rise in prices, in the period following the gold discoveries (200–204). Some of these improvements, it should be said, arise not only from the general progress of research, but also from the right which Dr. Redford has assumed, and exercised, of supplementing and correcting the standard accounts by independent reference to the sources, and to his admirable judgment in the linking of topics. The kind of treatment adopted throughout favours exact detail and actual magnitudes, even to the point of being a little "packed."

As regards details, the student's knowledge both of parliamentary committees and currency problems will be improved when he reads that, in the controversy between the Banking and Currency schools, such committees asked more than fourteen thousand questions "without coming to any conclusion," and his sense of the intricacies of foreign trade deepened when he hears that, in the wisdom of Parliament, the importation of bulrushes, manna and canaries into this country was subject to duty down to the year 1845. It seems a pity, though, that no room could be found for a diagram or map or two, as they car bring some things more vividly before a reader than the written word.

Upon the wide social issues involved in his subject, Dr. Redford is exceedingly discreet. Owing to the scale of the book, the treatment of the intricate and immense interactions of industrialism with growing population and with institutions and conceptions of government and law is limited, though effective, and the background of industrialism in the profounder social changes of the sixteenth and seventeenth centuries is practically excluded. The book achieves its severely limited aim so perfectly that one cannot help wishing its aim had been wider. Since the general relations between things form the problem, they cannot very well always be precisely explained; but they do need reminder to students, trained in their narrow fields, and skilled exposition for the general reader, who has the best of reasons for knowing that they exist, and indeed is interested in nothing else.

W. H. B. COURT

University of Birmingham.

Agricultural Depression and Farm Relief in England 1813–1852. By LEONARD P. ADAMS. (P. S. King & Son. 1932. Pp. 191. 7*s.* 6*d.*)

THIS little book is scarcely adequate to the interest, importance and difficulty of its theme. It is a useful but superficial summary, and not a serious contribution to knowledge. The author, who is Instructor in Economics at Cornell University, has made some use of original authorities, such as Parliamentary Papers, Hansard and the *Farmer's Magazine*, and has taken account of Professor Silberling's index numbers; but he seems to have relied mainly upon such well-known secondary authorities as Lord Ernle's *English Farming Past and Present* and Smart's *Economic Annals*, and he shows no knowledge of Professor Clapham's volume on *The Early Railway Age*, of Professor D. G. Barnes' *History of the English Corn Laws*, or of Mr. Fay's article

on *Corn Prices and the Corn Laws 1815–1846*, which was published in this JOURNAL in March, 1921.

Mr. Adams' knowledge of the background of his subject is very defective. He uses language (p. 9) which seems to imply that Tull flourished in the second half of the eighteenth century, and on the same page definitely speaks of Lord Townshend and Mr. Coke as being "the best examples of progressive farming at the beginning of the nineteenth century," and assigns one of these—it is uncertain which—to Leicestershire! It is hard sometimes to know whether he means what is wrong, or has failed to express his meaning clearly. Most readers would, I think, gather from pp. 13–14 that enclosure first attracted the attention of the House of Commons in 1797 and that the great enclosure movement began with the nineteenth century, and one who did not know the facts already would be surprised when he read later that "in the period 1770 to 1799 Parliament passed a total of 469 enclosing bills." Mr. Adams actually goes out of his way to make misleading statements. On p. 15 he speaks of the Navigation Acts as "inaugurated in the reign of Elizabeth," and, speaking of the beginning of the nineteenth century, says that "wages were still fixed by the justices of the peace in many districts." Even when he gets down to his proper subject, he is still fearfully inexact. It is misleading to say (p. 137) that the Royal Agricultural Society "was founded in 1840." That was the year it received its charter; but it was formed two years earlier, and had started its Journal and held a show at Oxford in 1839. It is misleading, again, to say that the Tithe Commutation Act of 1836 made tithes payable in money "the amount of which was to vary with its purchasing power" (p. 172, cp. p. 164).

The best part of the book is the last chapter, which gives us a "Summary and Conclusion," but here a general failing, which is noticeable also in other chapters, becomes more important. Except for a casual statement that "the more rapid turnover of capital in manufacturing was an advantage under conditions of falling prices" (p. 166), we find no appreciation of the fact that agriculturists tend to feel the effects of a changing price level more than those engaged in industry, and arable farmers more than grassland farmers. Much which Mr. Adams has found puzzling would have been clearer to him if he had taken to heart the article on *The Economic Lag of Agriculture*,[1] which was published in this JOURNAL in December, 1925.

REGINALD LENNARD

[1] By C. Dampier Whetham (now Sir William Dampier).

NOTES AND MEMORANDA

Notes on the General Situation of India

At a time when the world is suffering from economic depression and a serious discussion is going on about cancellation of reparations and reduction of public debts, it is essential that some facts about India should not be lost sight of by those who mould public opinion in England.

The first thing to which I wish to draw pointed attention is the fact that, unlike England, India is a debtor country. Her total foreign liabilities, compiled by me in 1929, which amounted to nearly 1000 million sterling, are composed of the following items:

	£ Mn.
Sterling debt and railway investments	400
Municipal and port trust borrowings	10
Investment in companies registered in India	100
Investments in companies operating in India but registered outside	200
Investment in rupee securities	150
Other investments not comprised in the above	140
	£1,000

Since then, on account of depression, the profit on commercial investments has in some cases been very substantially reduced, while in others it has altogether vanished. On the other hand, our sterling loans have increased from £400 millions to £430 millions. But even if we make allowance for the reduced return on commercial investments, a substantial amount is required to be paid every year for our debt commitments. To this should be added our other annual liability, called by the name of "Home Charges," which constitutes payments towards pension and other commitments in Great Britain. This amounts to nearly 23 crores of rupees. (It is about 40 crores in all, but 17 crores represents interest which is already taken into account above.) I had estimated in 1929 that our annual liability thus comprised amounted to 103 crores, and in compiling this figure I did not take into consideration other items of non-visible imports, such as freight, insurance, etc. The question is: Will India ever be able to pay off her total debt, or will she even be able to redeem

her annual liabilities? Our visible balance of trade between 1920 and 1930 stood as follows :—

(In thousands of rupees.)

Year.	Excess Exports.	Excess Imports.
1920-21	—	88,39,86
1921-22	—	46,17,16
1922-23	9,31,69	—
1923-24	76,66,15	—
1924-25	52,84,86	—
1925-26	99,16,24	—
1926-27	30,91,12	—
1927-28	36,98,06	—
1928-29	44,81,16	—
1929-30	46,59,36	—
Total . . .	3,97,28,64	1,34,57,02

From this it will be seen that on the average India has remitted just over 26 crores per annum against her total invisible imports, which at present exceed 100 crores per annum. The position was no better before the War. The result has been that our foreign debt has been mounting from year to year. In 1910 it was estimated at a figure of £365 millions, whereas it is now about £1000 millions.

Before the War the tendency of the foreign merchant or investor in India was to re-invest a substantial portion of his earnings in India itself. After the War this tendency was substantially changed. The investor, particularly after the War, has made endeavours to take his earnings out of the country; but except that such tendency, coupled with the fall in prices, has caused a great strain on the value of the rupee, the foreign investor has not materially succeeded in exporting capital abroad. The rupee, as a result of this two-fold strain—viz., export of capital and lower prices—fell in 1920 from 2*s*. to 1*s*. 3*d*. By means of severe contraction it was puffed up again to 1*s*. 6*d*., and stabilised at that rate; but it was again found impossible to maintain it at this over-valued rate. High money rates, severe contraction, and constant borrowing by the Government at as high a rate as 8 per cent. had become a normal feature when the sterling exchange collapsed. The collapse in sterling was thus a God-sent opportunity to the Finance Member of the Government of India, and caused some relief to the sterling-rupee exchange. But the question how India is going to redeem her liabilities is as unsolved to-day as it ever was.

One method to lighten her burden in this behalf might be for English merchants to settle themselves in India for all time and

make it their home, and thus convert the foreign debt into national wealth. India would undoubtedly welcome such a move on the part of British merchants. Such a position, apart from materially contributing to the Indian coffers, would considerably take away the force of the criticism often levelled against the British merchant, and with justification too, that he is a mere bird of passage. But I am afraid the Britisher will never look upon India as his own home. The idea of a hunting-ground from which in course of time he must retire will continue to be his cherished notion.

The other method to reduce our foreign burden is to increase our exports. Condition precedent to this must be an increase in our productivity. But the question is: How to do it?

A second point worthy of consideration is the question of private debts. It has been estimated that the total debts of the agriculturists amount to 900 crores. This has been growing from year to year. The poverty of the Indian agriculturist is proverbial. Every year he makes both ends meet by borrowing. There are no reliable data about the income per capita of Indians, but having regard to the serious fall in prices, we can safely assume that it has been substantially reduced lately. The last figure, compiled in 1920, was Rs. 45 per capita. Since then prices have fallen to the extent of more than 50 per cent. This must have had a very serious effect on the income of every one, but in order to get a correct perspective of the condition of the masses one has to eliminate the income of the few rich and thus find out the income of real India, which constitutes 85 per cent. of the population. It can then alone be realised what a pitiable position the Indian agriculturist enjoys, or may I say, suffers from.

The fall in sterling last September has given him no relief. Although the index figure is only slightly lower than what it was in September, prices in which the Indian agriculturist is largely interested have again fallen tremendously. The following table will give an idea:—

		Cereals.	Puls	Tea.	Oil Seeds.	Iustarc Oil.	Raw Jute.
1931.	September .	73	91	63	78	65	51
	October .	77	91	68	88	64	62
	November .	76	96	75	80	65	60
	December .	78	108	68	80	65	58
1932.	January .	76	106	61	81	65	52
	February .	72	95	62	84	65	51
	March . .	70	86	60	72	61	49
	April . .	66	83	59	71	61	45
	May . .	66	87	57	72	57	42

Thus it will be seen that his position has actually grown worse. The result of this distress has been a large export of gold. The following table will give an idea how the parting with the "distress gold" began long before the fall in sterling, and how it received an impetus on account of sterling depreciation :—

Gold Exports and Sales to the Government Treasury in 1931–32

Month.	Exports.	Gold Tendered to Treasury.
April	Nil	7 Crores
May	Nil	
June	64	
July	43	
August	29	
September	29	
October	9,05	
November	8,57	
December	17,77	
January	9,27	
February	7,57	
March	6,88	
	60,77	7 Crores

The Indian agriculturist has been able to manage somehow so far. The sale of gold helped him in making both ends meet; but it is, after all, a passing phenomenon. At the most it must cease by the end of this year. The question is, What next? With no gold left for sale and with no rise in prices, and with his fixed charges, *i.e.*, land revenue and interest which have now become simply intolerable, how is he going to manage?. The question may be tragically put, How is he going to live?

The third question is about our public finance. Political and economic influences are both working towards causing a gap between the income and expenditure of the Central and Provincial Governments. There has been a deficit of 21 crores in the budgets of 1931–32. The law of diminishing return has begun to operate. Increased taxation therefore cannot bring in any more money. Money by loan seems to be equally impossible in India in its present disturbed political condition. The result of the last loan has been as follows :

New Rupee Loan, 1932

Cash	Rs. 13,70 lakhs
Treasury Bills	1,81
1932 Bonds	3,72
	Rs. 19,23 lakhs

The cash contribution—at any rate a good portion of it—came from London. Thus new taxes and more borrowing should no longer be relied upon until conditions improve. What, then, is to be done? Retrenchment—drastic and ruthless—could be made. The retrenchment, however, cannot have an altogether unmixed effect. What is really required is judicious spending. The total expenditure should not be reduced. Retrenchment in the Army and other unproductive departments and more expenditure in nation-building projects would be the more appropriate policy. The question, however, as to how the Government will balance its budgets is still unanswered.

I do not want to appear in the rôle of Jeremiah, but optimism should be intelligent, and not a blind faith. I see no automatic opening of a way out of the *impasse.* Some action has to be taken to get out of the present morass. International action is very good, but should India wait for international action? England did not wait for America before she depreciated sterling. Japan has not waited. Is it necessary that India should wait? Success at Lausanne introduced a wave of optimism which already seems to be on the wane. Decisions of very far-reaching effect have been taken at the Lausanne Conference, but no immediate recovery should be expected from it. Cheap money in England is another good factor in favour of world recovery, but we still have a 4 per cent. Bank rate in India, and I doubt if there is any chance of its going still lower. India gets uneasy at the glib remark often made that the position in India is much better compared with other countries in Central Europe. I have no personal experience of the countries in Central Europe, but I cannot conceive their suffering even one half of the distress at present suffered by the Indian peasants. Their debt is unbearable, and over and above this we must export in order to redeem our external debts. Maintenance of excess export to us is not a craze, but a compulsory choice.

What we require is reduction of our foreign debts, reduction of our internal debts, more money for education, sanitation and other nation-building schemes. India is a fertile country. Her people are industrious and simple in their habits. Why, then, should they not live more comfortably than at present? Much could be done to improve their lot, and it must be done. But shall we ever do it? And will the Pundits in Great Britain help us?

G. D. BIRLA

Calcutta.

Decreasing Costs: an Addendum

I am grateful to Mr. R. G. D. Allen for his interesting note on Decreasing Costs,[1] in which he examined some questions I had considered in an earlier article.[2] I do not wish to explore the whole ground, but only to advert to the one point at which Mr. Allen's conclusions seem to be at variance with mine. The difference is, I think, apparent only and not real.

Assuming conditions of competition to be perfect, but for the presence of marketing costs, Mr. Allen writes: "Notice that costs [other than marketing] cannot decrease at all rapidly unless the rate of increase of marketing expenses is large." My conclusion had been that non-marketing costs cannot decrease more rapidly than marketing costs increase. Mr. Allen's use of the word "large" leads me to suspect that he imagines there to be a difference where there is none, and his equation, in the form in which it is stated, does not seem to throw much light on the matter.

Mr. Allen takes x as the total output of the industry, x_r as that of a particular source of supply, π_r ($= F_r(x_r)$) as the *average* non-marketing cost per unit of the source and $\phi_r\left(\frac{x_r}{x}\right)$ as the *total* marketing costs of the source. He is able to arrive at the conclusion that in perfect competition the rate at which non-marketing costs may decrease is limited by the following condition:

$$-F'(x_r) < \frac{1}{x\,x_r}\,\phi'\left(\frac{x_r}{x}\right).$$

It is necessary to be clear what, in economic terms, these expressions stand for. $-F'(x_r)$ represents the rate at which *average* non-marketing costs per unit decrease, while $\frac{1}{x}\phi'\left(\frac{x_r}{x}\right)$ represents the rate at which *total* marketing costs increase. If I may put the matter graphically, the two magnitudes, between which Mr. Allen has established a relation, are, one, the gradient of an *average* cost curve, and, the other, the gradient of an *integral* curve of total costs divided by the variable x_r. From this relation it is difficult to glean anything without further elucidation. Mr. Allen's statement that costs cannot decrease at all rapidly, unless the rate of increase of marketing expenses is large, remains, on this evidence, an *ipse dixit*.

[1] Economic Journal, June 1932.
[2] *Ibid.*, December 1931.

By a slight modification, however, of his third equation it is possible to reach a notable conclusion. Will Mr. Allen permit me to assume that average rather than total marketing costs are a function of $\frac{x_r}{x}$? Call this function $\psi_r\left(\frac{x_r}{x}\right)$. Either assumption is arbitrary; both seem possible, but I submit that mine is the more probable; and mine yields in connection with Mr. Allen's equations a definite result. (My assumption in the former article amounted to making marginal marketing costs a function of $\frac{x_r}{x}$; if we suppose the distribution of the source's marketing expenses between the more inlying parts of its special area and the periphery to be constant, this would be the same as taking average costs as a function of $\frac{x_r}{x}$.)

Mr. Allen's third equation may now be written:

$$\frac{d}{dx_r}\left\{x_r\left(p - \pi_r - \psi_r\left(\frac{x_r}{x}\right)\right)\right\} = 0,$$

or
$$\pi_r + \psi_r\left(\frac{x_r}{x}\right) = p - x_r F'_r(x_r) - x_r \frac{1}{x}\psi'_r\left(\frac{x_r}{x}\right).$$

Proceeding on the lines of Mr. Allen's argument we infer that, since the price must not be less than the average cost of production plus the average marketing expenses,

$$i.e.\ p \nless \pi_r + \psi_r\left(\frac{x_r}{x}\right),$$

then, if F'_r is negative and ψ'_r positive,

$$- F'_r(x_r) \ngtr \frac{1}{x}\psi'_r\left(\frac{x_r}{x}\right).$$

$F'_r(x_r)$ is the gradient of the non-marketing average cost curve and $\frac{1}{x}\psi'_r\left(\frac{x_r}{x}\right)$ is the gradient of the marketing average cost curve. It follows that in the conditions postulated, the downward gradient of the non-marketing cost curve may be as great as, but must not be greater than, the upward gradient of the marketing cost curve. But this is actually the conclusion which I originally reached. Mr. Allen says that I attempted to "extract too much" from my over-simplified representation. May I not claim to have shown with the assistance of his admirable tools that I extracted from it, though without mathematical demonstration, precisely the conclusion which the conditions

justify? I should add that I regard this as but one among the many merits of Mr. Allen's most illuminating note.

To sum up, competitive equilibrium is consistent with the Law of Decreasing Costs, when individual firms are held in equilibrium in a given state of demand by being subject to marketing costs that increase, so long as that state prevails, at no less a rate than productive costs decrease.

May I take this opportunity to correct an error which occurs in Fig. 1 in my original article,[1] and which has been pointed out to me by Mrs. J. Robinson? The demand curve should touch, not intersect, the average total cost curve, and should lie below it. This error in the diagram does not affect the argument of the text.

R. F. HARROD

Christ Church,
Oxford.

THE FINANCING OF PUBLIC WORKS—A NOTE

IN an article on *The Financing of Public Works during Depression* published in the last number of the JOURNAL, Professor Jems Warming refers[2] to my estimates of "secondary employment" for the case of Great Britain[3] and indicates their general agreement with his own figures, which he prepared some time ago for the case of Denmark. But Professor Warming is under the impression that I assume, for the purposes of my calculations, that any increase in a man's income "is devoted to consumption in its entirety." I do not know why he should have supposed this. My article is crammed with references to "the saving on the dole" and to "the increase in unspent profits," and explicitly introduced into my formulæ is the quantity U, the amount of the dole, which forms a very important part of Professor Warming's "saving." As regards increased saving by business men out of their profits, that of course has to be allowed for in estimating my n, the proportion of the increase in profits which is devoted to home-produced consumption-goods—*home-produced* as opposed to *foreign-produced*, but also, be it noted, *consumption-goods* as opposed to *securities, etc.* The result is that the agreement of my figures with those of Professor Warming—while less remarkable, if I may say so, than it must have appeared to Professor Warming—is far more satisfying. What Professor

[1] ECONOMIC JOURNAL, December 1931.
[2] *Ibid.*, June 1932, p. 214.
[3] *Ibid.*, June 1931, p. 186.

Warming has done (*loc. cit.*, p. 218) is to take the *first row* of my table of figures (*loc. cit.*, p. 186), which I only inserted in order to indicate the *extreme upper limit* of the possible range of values, and to suggest that the resultant figure for k ought to be reduced "on account of saving" from 50 to 40 per cent., corresponding to a reduction of the ratio of secondary to primary employment from 1 to $\frac{2}{3}$. But my actual conjecture, for what it is worth, is that "if we were to suppose that in actual fact the ratio is $\frac{3}{4}$, we might be erring in the direction of under-statement" (*loc. cit.*, p. 186). Professor Warming's estimate is $\frac{2}{3}$ (*loc. cit.*, p. 218), but he admits (*loc. cit.*, p. 217) that this is for the case of "captured work," where the ratio may be expected to be smaller than for that of new investment. In any case, the agreement is so close that even if I had been discussing the same country as Professor Warming, and the same situation, I should feel that I had not missed the mark by a gap sufficiently wide to suggest that we had not both been working on the same general basis.

But on another point of great practical importance I should like to raise a question. Professor Warming has calculated that "in a given situation here in Denmark . . . six times as much money was wanted to create work rather than to give relief" (*loc. cit.*, p. 218). My own, supposedly conservative, estimate for Great Britain was (*loc. cit.*, p. 192) that "the saving to the Unemployment Insurance Fund will be . . . half the total cost." Professor Warming does not supply the basis of his calculation, and it is therefore impossible for me to ascertain whether my own estimate is wrong or whether Professor Warming has made a slip or whether the enormous difference between us arises out of a dissimilarity between the conditions of Denmark and those of Great Britain—in which case our agreement in regard to secondary employment can be regarded as nothing more than a most extraordinary coincidence.

Although it may not arise directly out of Professor Warming's article, perhaps I may be allowed to point out that my quantitative estimates were based on the assumption that an alteration in the cost of supporting the unemployed would have no appreciable effect on the level of taxation, but would accrue entirely in favour of the Sinking Fund or of the deficit of the Unemployment Insurance Fund. This assumption was a fairly reasonable one at the time when I wrote my article, but it is far less reasonable under the conditions of financial austerity which prevail to-day. However, as I pointed out at the time (*loc. cit.*, p. 176), "any reduction of taxation that occurs . . . adds an *a*

fortiori force to the argument": the ratio of secondary to primary employment is likely to be greater now than it was last year, and the effect of cutting down programmes of public works is correspondingly more serious.[1]

There is another aspect of Professor Warming's article to which I should like to refer. When people's incomes are increased, the amount that they save will increase. It is this extra saving which Professor Warming shows to be "the real source of investment" (*loc. cit.*, p. 214): "the secondary employment must continue until the total created income causes so much saving that the original investment can be paid" (*loc. cit.*, p. 216). But Professor Warming goes on to say that "if we start with greater investment than the expected saving from all unemployed factors, inflation not equilibrium will result." And again: "If [the banks] dispose of more than the latent saving we get inflation." Professor Warming seems to forget that his increased saving may come about just as well through a rise in prices (bringing increased profits) as through an increased use of unemployed factors; and that it is impossible to say *a priori* how much of it will accrue by the one way (of "inflation"?) and how much by the more desirable route of increased employment. As I was anxious to emphasise in my article, "the whole question ultimately turns on the nature of the supply curve of consumption-goods" (*loc. cit.*, p. 182).

Not only does the equality of Professor Warming's increase in saving with the increase in investment fail to insure him against "inflation," but it is an equality that under all circumstances, no matter how drastic, is always maintained. For Professor Warming is not using saving in the sense in which Mr. Keynes employs the word in his *Treatise*, but in the ordinary sense of the aggregate of the excess of individuals' receipts over their expenditure on consumption. But in this simple-minded sense of the term, savings are *always and necessarily* equal to investment: that is a mere truism, which emerges at once, as Mr. Keynes has demonstrated,[2] from the simple-minded definition of savings. Whatever the level of investment, funds are always available to pay for it. That is what I tried to demonstrate with the aid of Mr. Meade's relation (*loc. cit.*, p. 189). And that

[1] It is of extreme importance—though completely irrelevant to the purpose of this note—to notice that the present position of our foreign exchanges converts the objection to public works which I discussed on p. 196 of my article into a positive argument in their favour.

[2] ECONOMIC JOURNAL, Sept. 1931, p. 422; see also *Economica*, Nov. 1931, p. 393.

is what Professor Warming is saying in his article. But the statement is universally true, and there is no breakdown, of the kind contemplated by Professor Warming, when the level of investment reaches a certain point. On the other hand, there is nothing in the statement to tell us how far any increase in investment will be paid for out of funds secured through an increase in output and how far out of funds emerging through a rise in prices. If we are interested in the question of prices and profits, it is necessary to study the supply curve, about which Professor Warming has nothing to say.

But these are points of detail, which do not affect the main tenour of Professor Warming's discussion or his convincing demonstration that "the international division of labour . . . becomes an important cause of depression" and that the absence of international co-operation is preventing countries from adopting a policy that would be of great benefit to the world as a whole.

R. F. Kahn

King's College,
Cambridge.

An Economic Fallacy:

The Double Taxation of Savings

The theory of income taxation has long wrestled with the perplexing notion that to tax savings and also their fruits is a form of "double taxation." The practical implications of this doctrine have not been neglected: it is not too much to say that the greater part of its theoretical importance and interest to economists is derived from these practical applications. But time has narrowed the battle-field and limited it to a disputed point of abstract theory. Economic policy has cut the Gordian knot of the dispute by proceeding to tax income without special treatment of savings. Nevertheless, it may help if the fallacy—for such it is—that double taxation exists can be excised once for all from the conventional doctrine. It may then be possible for economic policy to advance another degree beyond the accepted field of economic theory.

We owe to Professor Pigou so frank and open a statement of the idea of double taxation of savings and income that the resolution of the difficulty is an easy task. That idea, it is now clear, arises out of a confusion of terms. In his *Study in Public Finance* (p. 136 n.), Professor Pigou has set forth the doctrine of double

taxation in this succinct statement: "The saved part of income . . . is taxed on its fruits and the spent part is not taxed at all." This, of course, refers to subsequent taxation after the initial levy. But, it must be clear that the key phrase, "the saved part of income is taxed on its fruits," in this statement is simply a roundabout and somewhat mediævalistic form of words to express the unquestioned fact that *the fruits* of the saved part of income *are taxed.* That is all it comes to. Thus "the saved part of income is taxed on its fruits" = "the fruits of the saved part are taxed." For after the initial levy, it is obvious that the saved part is not itself again taxed as income. And why should the "fruits" not be taxed? There is no good reason unless we wish to give a special inducement to savers by this exemption; and there is no good reason for that. By this mode of expression, however, the primitive idea, not itself any too clean-cut in its logic, of a "double" taxation of savings *and* income in the sense of taxing both, was illegitimately turned into the notion of a "double" taxation of savings *through* income.

The confusion over terms was further reinforced by an arithmetical obscurity involved in the "discount of future income." A newly-levied income tax—or, in general, a change in the income tax, whether the earlier rate were zero or some positive percentage —introduces a differential into various modes of disposing of a person's income, *i.e.* by *lending and spending* it, relative to the earlier regime. But, by a curious ratiocination, it was assumed *that this differential existed between lending and spending under the new regime.* This idea is fallacious. It confounds a matter of time-series or historical variation—*i.e.* lending-and-spending in one period compared with lending-and-spending in a second—and one of cross-cut or contemporal variation—*i.e.* lending and spending compared relatively to one another in a single period. Or we might say that the former may represent either two different time-periods, or two actual or hypothetical situations involving *different* rates of income taxation.

This is the true comparison. It is only when the problem is considered in this light that we may say a differential exists. But this is entirely different from saying that there is a differential between lending and spending at any time. The latter differential does not exist. Surely an ordinary consideration of human behaviour, in disposing of one's current income through alternative channels of lending and spending, made in the light of marginal analysis, will justify this conclusion. Of course, the presence of a tax is apt to affect the desirability and the profit of saving.

But this is another matter. Its conditioning influence on the volume of savings (or, of "the saved part of income") does not in any way support the false conclusion that the savings are being taxed a second time. Given definite conditions of taxation, the individual may make his choice. While the presence of an income tax may or may not be a "burden on" saving—or perhaps only on the saver—it is plain illogic to suggest that for this reason it is in any quantitative sense a "tax on" saving through its fruits.

Consequently the second term which Professor Pigou finds room for in the formula of the "effective rate of tax on saved income" (p. 136) ought rather to be included as a deduction by the investor in computing his "net rate of tax-free return" on investment; this is the fair and realistic interpretation; not as an addition to the tax rate. Other ways of looking at the formula lead to the same conclusion. For example, one might say that what he has done, in effect, has been to "capitalise" future income-tax payments on the fruits of saving and to subtract the "present value" thus computed from current income (the normal process of "capitalising" a tax would treat it, instead, as reacting on the demand price of investment). This is a less realistic interpretation than the other, but still intelligible. Thus a portion of current savings is earmarked to finance future tax payments; its amount is called a "secondary tax"; and the net return after taxation on this imaginarily segregated investment is just sufficient to pay the income tax on the rest. In order, that is, that the rest shall be tax-exempt, a further book-keeping deduction is made from current income to prepare for the tax-collector's future charges. This is really assuming that the fruits of saving *ought to be* tax-free. I have the impression that this was the very proposition requiring to be proved.

It is then clear that Professor Pigou's arithmetical example (p. 136) is not really a comparison of the "investment use of income" with the consumption use—*i.e.* lending versus spending—but of the effect of *changing the tax rate* from zero to fifty per cent. on the profitability of saving. This change is made under certain assumed conditions which need not be specified here. Thus it comes strictly under the head of a comparison of lending-and-spending in one tax-rate structure or under one regime, with lending-and-spending in another, as already defined. Or perhaps it is more accurate to say that it suggests the result of a *change from* one tax structure or regime to another. Whatever discrimination exists arises solely in this process of change and not in the stable state.

With these corrections made, the idea that "double taxation of savings" exists in taxing both savings and their fruits is seen to be groundless.

DONALD WEAVER

The Brookings Institution, Washington, D.C.

OFFICIAL PAPERS

Report of the Low-Grade Ore Commission. Government Printer, Pretoria. 1932. Pp. 128.

THIS Commission was appointed in August 1930 for the purpose of "inquiring into the mining of low-grade ore on the Witwatersrand and matters connected therewith." Countless Commissions have inquired into one or other aspect of the Witwatersrand Gold-mining Industry, and have in vain made recommendations which would lead to an extension of the life of the industry. This Commission was a convenient method of again postponing action by the Government to meet the insistent demands of the industry.

The Final Report of the Commission deals with matters of very great importance. It has long been known on the Witwatersrand that the life of the mines could be considerably extended if the artificial burdens to which they are subjected were removed. The official estimates of the future life of the field as a whole, and the forecasts concerning the Witwatersrand which have been used in investigations into the future world supplies of gold by the Gold Delegation of the Financial Committee and by others, do not take into account the possibility of the removal of these burdens, or of a reduction of working costs by other means. This Commission has for the first time officially placed on record what it considers would be the effect of removing these economic disadvantages, of bringing about a greater elasticity in wages on the gold mines, and of reducing costs.

Any reduction in the working costs of the gold mines automatically brings into the payable zone large quantities of ore which at present costs have to remain unexploited. The Commission records that :—

(*a*) the total tonnage to be milled by the thirty-four mines existing in 1931 was estimated at 335,000,000 tons under existing conditions of costs.

(*b*) A reduction of two shillings per ton milled in working

costs and yield will probably result in the milling of an additional 112,000,000 tons, equivalent to an increase of 33 per cent. in the total tonnage to be milled, and therefore in the average life.

(*c*) A reduction of four shillings per ton milled in working costs and yield will probably result in the milling of an additional 243,000,000 tons beyond the 335,000,000 to be milled under existing conditions, equivalent to an increase of 72 per cent. in the total tonnage to be milled, and therefore in the average life.

The Commission regards these estimates as without any doubt conservative, and it gives various technical reasons for the conclusion that the decrease in costs mentioned under (*b*) would lead to an increase in the future average life not of 33 per cent. but of at least 50 per cent., and that the decrease of costs mentioned under (*c*) would lead to an average increase in the future average life not of 72 per cent. but of at least 100 per cent. The Commission, however, was not able to reach agreement as to the means by which this reduction of costs was to be brought about. Although two of the Commissioners contended that a prima facie case for a reduction of wages had been established, and that a reduction of 10 per cent., followed by similar reductions throughout the Union, would reduce existing mine working costs by at least 1*s.* 4*d.* per ton milled, agreement could not be reached on this matter, it being contended by the Commissioner representing the Trade Unions, and by the Chairman, that at the present time "no steps should be taken which might prevent the smooth running of the industry which, without any doubt, is at present carrying the whole country."

The Commission agreed that, in the interests of the gold-mining industry, "a halt be called in the granting of additional protection," but again they could not agree "as to the real effect of the tariff policy on the working of low-grade ore." They found that "the railway rates on the stores and materials necessary for the working of the gold-mining industry are very high and have a prejudicial effect upon the mining of low-grade ore," but could only agree to suggest that a Commission be appointed to investigate the whole railway policy of the Union. They found also that "the compensation paid to the miners' phthisis sufferer and his dependents is on an unprecedented scale and in excess of that provided by other laws for industrial accidents or diseases, either in the Union or in any other country." Further, the Com-

missioners, with the exception of the Trade Union representative, are "definitely of opinion that some operations underground at present reserved for the white man could be carried out by specially trained natives, without detriment to safety and health," and they make the important recommendation that the "Mines and Works Regulations," the notorious "Colour Bar Act," should be amended to make this possible. Moreover, they condemn the fixing of any ratio between white and native employees.

Many other important facts concerning the working of the industry are contained in the Report, not the least important of which is the analysis of the great importance of the industry to the Union. The disagreement of the Commissioners on many vital matters of policy does not vitiate its value as an exposure of the factors which are retarding the lengthening of the life of the industry, and preventing the Union from reaping the enormous benefits that would accrue to it if only ignorant political interferences and prejudices could be overcome. At present, however, there are few signs that this or any other report will bring about these long-needed reforms.

S. HERBERT FRANKEL

University of the Witwatersrand,
Johannesburg.

Report of the Native Economic Commission. Government Printer, Pretoria. U.G. 22. 1932. Pp. 350.

FOR years impartial observers of South African affairs have drawn attention to the alarming signs of economic deterioration in the Native reserves of the Union, and to the effect on the European standard of life of continuing the attempt to develop the resources of the Union on the basis of what is in effect largely serf labour. Two years ago the Native Economic Commission was appointed to investigate Native urban and rural economic conditions, the effect of Native migration to the towns, and the means by which it could be arrested.

The Report now issued by the Commission is a document, the importance of which, as an official record of certain appalling conditions in the Union, cannot be exaggerated. The Commissioners have not attempted to gloss over the facts of the Union economy which were brought to their attention, and the Report contains valuable information, often in very great detail, on almost every aspect of Native affairs. When, however, one examines the recommendations of the Commission, one is forced to the conclusion that once again official investigators have shirked the full analysis and implications of the facts.

The Commission found that the policy of the past, under which the development of Native reserves has in every way been neglected by the European Governments, and whereby practically nothing has been done to educate the Native, to increase his productivity, or to change his outlook, has led to "a state of affairs in which, with the exception of a few favoured parts, the Native area can be distinguished at sight by its bareness," and which "unless soon remedied will within one, or at the outside two, decades, create in the Union an appalling problem of Native poverty." The Commission shows that in certain parts of the Ciskei, "desert conditions have, in twenty years, been created where once good grazing existed," and that, unless precautionary measures are taken, the same causes will produce the same effects in the reserves of the rest of the Union. As a result there will be a continuance of the vast migration of able-bodied Natives to European areas, in order to find work at almost any wage they can pick up, partly in order to obtain money to pay the urgent needs of their dependents in the reserves, partly merely to keep themselves alone from starvation. Already this migration, coupled, as it is, with a similar large movement of Poor Whites from European farms, is throwing upon urban communities burdens which there can be no doubt they will not be able long to bear.

It is all very well to recommend, as the Commission does, that the cure lies "in a wise, courageous, forward policy of the development of the reserves." But how is this to be brought about? The Commission partly recommends, and partly implies, that the present economic restrictions on the Native are to continue. If he is not to be allowed to purchase land except in the over-crowded reserves; if no adequate system of land tenure is provided; if he is not to be permitted to obtain a place in the urban areas other than as a hewer of wood and a drawer of water, at wages which the facts show are, as a rule, insufficient for the support, at a minimum standard of health, of himself, his wife and two children; if on the farms his wages are still to be paid largely in kind, and his labour, and that of his family, is to continue to be wasted as at present, where is the capital for the uplifting process in the reserves to be obtained? Can a European Democracy that has so far not been able to face the necessity of providing adequate additional land for the Native peoples, be expected to tax itself for the provision of capital resources for them?

Throughout the Report the Commissioners have failed to face the basic fact that unless there is real cause to anticipate the possibility of vast collective or State schemes of development, it is

essential to throw open the South African Economy to the less restricted play of individual initiative, irrespective of race or colour, and to bring about a greater mobility of economic resources. The many reservations by two of the Commissioners go some way towards grappling with fundamental problems. On the whole, however, the Report leaves problems, which it was so long hoped such a Commission would analyse fearlessly, very much where they were before.

S. HERBERT FRANKEL

University of the Witwatersrand, Johannesburg.

The Coal Problem. Report of the Economic Committee to the Council of the League of Nations. (London: Allen and Unwin. Pp. 55. 1*s*. 6*d*.)

AT the time of the previous Report of 1929, the situation of the coal industry seemed to be improving, and it was hoped that the crisis would be remedied by spontaneous efforts of self-defence. But the increasing discrepancy between production and consumption since that time has led to this resumption of the inquiry. The conclusions now reached are affected also by the steps which have been taken in the interval, especially in Britain, to organise the industry. There is therefore a greater opportunity for the consideration of international agreements on marketing arrangements, to which national organisation is a necessary preliminary. In the view of the Committee, the time has now come to take up active negotiations. The Report shows how various national policies of restriction are separately in force, and what tentative schemes have existed for a more general settlement, notably the London Conference of 1931. Any further negotiations or agreements must be initiated and concluded by those who have to bear direct responsibility for them, and not by the League. The function of the League will be to make the necessary contacts and to maintain supervision. The Report contains a concise and interesting study of the relative changes in production and consumption in the European market.

Report of the Gold Delegation of the Financial Committee of the League of Nations. (Geneva, 1932. London: Allen and Unwin. Pp. 83. 2*s*. 6*d*.)

THE Gold Delegation has now finished its work, and this Report is thrown into the pool of current monetary controversy. The main Report is signed by all the members except Professor

Cassel, but besides his strong dissent from its general tenor three members record their objection to findings of historical fact or interpretation and to the proposed method of adapting monetary policy to the price level. These are Messrs. Jannsen, Mant and Strakosch. None holds the view that any country or group ought finally to discard gold as an aim of policy. But the tenor of the main Report is that, as gold has not failed on its merits, and is more practicable than any alternative in the present conditions of knowledge and confidence, and can be improved by various measures, we should at once set on foot the policy of restoring it. The future administration should aim at what is somewhat vaguely called a relative stability of wholesale prices, but not so as to prevent long trends due to improvements. The three objecting members hold that a longer preparation is required if an international gold standard is at some time to be possible again. The gold and non-gold groups should each endeavour meantime to raise, and obtain stabilisation of, their prices. Then we shall see. Professor Cassel holds that the return to gold is for some countries and for such a time so problematical that their best course is to prepare the means of doing without it. With these differences, there is general agreement on such immediate questions as the combination of war debts, tariff restrictions, and the "rules of the game." The theoretical parts of the Report show again that issues of monetary policy initiated by recent academic thought have reached the forum.

D. H. M.

Current Topics

The Annual Meeting of the Society was held at the London School of Economics on May 26 last, as recorded at the commencement of this issue of the Journal. Prof. J. R. Bellerby and Mr. C. R. Fay were added to the Council as new members. There were at the end of last year 4,323 Fellows and Library Members of the Society, of whom 818 were compounders, as compared with a membership of 4,007 at the end of the previous year and 694 in 1914.

Prof. Cannan in reviewing Dr. Eisler's *Money Maze* in our March number suggested that Sir Josiah Stamp had been too good-natured in writing a preface which seemed to have no relation to the book. He now asks us to say that he has since ascertained

that the so-called " Preface " is taken from the *Spectator* of Nov. 3, 1920, and was reprinted in Dr. Eisler's book without Sir Josiah Stamp's permission or knowledge that it was likely to be given without proper reference.

The following appointments have been made at the London School of Economics :—

F. A. van Hayek, Dr.(Jur.), Dr.Sc.Pol., Tooke Professor of Economic Science and Statistics as from Aug. 1931. N. Kaldor, B.Sc. (Econ.), Assistant in Economics as from Aug. 1, 1932.

RECENT PERIODICALS AND NEW BOOKS

Journal of the Royal Statistical Society.

Vol. XCV, Part II. *Official Statistical Publications : a discussion.* M. Greenwood and others. *Wholesale Prices in* 1931. The Editor of the *Statist. Mathematical Statistical Analysis of Economic Data : a discussion on the paper presented by the Industrial Institute.* G. U. Yule, J. H. Jones, and others.

Economica.

May, 1932. *The Political Aspect of Discrimination in International Economic Relations.* Part II. S. H. Bailey. *A Case against Technical Progress.* N. Kaldor. *The Foundations of a Mathematical Theory of Exchange.* R. G. D. Allen. *The Great German Inflation.* L. Mises.

Economic History Review.

April, 1932. *The Teaching of Economic History in Universities.* J. de L. Mann. (Ed.). *Masons and Apprenticeship in Mediæval England.* D. Knoop and G. P. Jones. *The Accounts of an Eighteenth-century Merchant.* L. S. Sutherland.

International Labour Review.

May, 1932. *Toward the Establishment of a Factory Inspectorate in China.* L. Pône. *Employers' Associations in the United States.* M. W. Alexander. *Socialist Towns ; Housing Policy in the U.S.S.R.* G. Méquet. *Farm Labour Research in the United States.* J. C. Folsom. *Statistics of Movements in the General Level of Wages.*

This number contains a brief memoir of M. Albert Thomas.

June, 1932. *Latin America and the International Labour Conference.* J. P. Ramos. *Education and Relative Wage Rates.* A. G. B. Fisher. *Agricultural Wages in Australia.* D. B. Copland and O. de R. Foenander. *The Purchasing Power and the Consumption of Belgian Workers at Different Periods.* M. Gottschalk.

The Manchester School.

Vol. III, No. 1. *The Objective Basis of Economics.* G. W. Daniels. *Municipal Finance.* S. D. Simon. *High Wages and International Prices.* B. P. Adarkar. *Employment of Juveniles in Lancashire.* A. Winterbottom. *Purchase and Payment in the Export Trade.* L. F. Behrens. *A Cursory Glance at Exchange Regulations.* F. Mason.

Indian Journal of Economics.

April, 1932. *England's Debt to Indian Handicrafts.* P. J. Thomas. *Some Aspects of Rural Credit.* H. L. Chablani. *The Nature and Intensity of Demand.* J. K. Mehta. *Rent in Relation to Price.* K. B. Saha.

Review of Economic Statistics (Harvard).

MAY, 1932. *General Economic Conditions: Indexes and Selected Statistical Data* (Editorial). *The Construction Industry in* 1932. W. C. CLARK. *Revision of the Index of General Business Conditions.* E. FRICKEY. *Review of the First Quarter of the Year.*

Quarterly Journal of Economics.

MAY, 1932. *Highway Policy on a Commercial Basis.* S. PETERSON. *Foreign Investment and the Terms of Trade.* C. K. WHITTLESEY. *A Comparison of the Rates of Earning of Large-scale and Small-scale Industries.* H. B. SUMMERS. *Some Neglected Aspects of Gresham's Law.* F. W. FETTER. *The Mobility of Capital.* L. SELTZER. *Member Bank Indebtedness and Net Demand Deposits in the Federal Reserve System.* L. CURRIE.

Journal of Political Economy.

APRIL, 1932. *The Psychological Foundation of the Law of Demand.* U. RICCI. *The Application of Quantitative Method to Economic History.* A. P. USHER. With reference to Dr. Clapham's study. *The Unemployment Problem in Australia.* E. R. WALKER. *Early Industrial Preferred Stocks in the United States.* G. H. EVANS. *The Fondaco dei Tedeschi: the medium of Venetian-German trade.* J. W. HOFFMAN. *Capital Production and Consumer-taking.* R. FRISCH.

JUNE, 1932. *The Relation between the Velocity of Circulation of Money and the "Velocity of Circulation of Goods."* A. W. MARGET. *The Canadian Monetary Situation.* C. A. CURTIS. *Taxation of Land Values in Canada.* C. M. DESTLER. *Two Notes on the Federal Reserve System.* K. R. BOPP.

Annals of the American Academy of Political and Social Science.

MAY, 1932. *Modern Insurance Developments.* By various writers. Edited by S. S. HUEBNER.

American Economic Review.

JUNE, 1932. *Significance of Stock Exchange Boom.* L. M. FRASER. *Land, Capital, and Opportunity Cost.* R. W. SOUTER. *Credit for Export of Automobiles.* F. M. LA BASTILLE. *Incidence of Real Estate Taxes.* H. D. SIMPSON. *Exchange and Price Stabilisation.* C. WHITNEY. *Dismissal Legislation.* G. T. SCHWENNING.

Wheat Studies.

(Food Research Institute, Stanford)

JULY, 1932. *The World Wheat Problem.* Persisting surplus characterises the problem. For four years world wheat stocks have been excessive by 200 or 300 million bushels or more. The bumper crop of 1928 was originally responsible. Deepening economic depression, government policies contracting consumption and stimulating production, and Russian exports have aggravated the problem.

AUGUST, 1932. *Projected Waterways in North America as Related to Export of Wheat.*

Skandinaviska Kreditaktiebolaget.

MAY, 1932. *Silver and Gold.* G. CASSEL.

Index (Stockholm).

JUNE, 1932. *The World's Staples.* XIII. *Zinc.* W. R. INGALLS.
JULY, 1932. *The World's Staples.* XIV. *Wood Pulp.* T. LUNDGREN.

Revue d'Économie Politique.

MARCH, 1932. *Le mécanisme de l'étalon-or a-t-il été faussé?* C. RIST. *La crise de l'étalon de change-or.* F. MLYNARSKI. *Le contrôle des devises et le maintien nominal de l'étalon-or.* F. JENNY. *Les perspectives d'avenir de la livre sterling.* W. T. LAYTON. *La nouvelle politique américaine de crédit en fonction du maintien de l'étalon-or.* J. H. ROGERS. *Les monnaies scandinaves et leur détachement de l'or.* K. KOCK. *Le florin hollandais et l'étalon-or.* P. G. MARTIN. *La crise monétaire de l'Europe centrale.*

Journal des Économistes.

MAY, 1932. *Les Bons de la défense nationale.* P. CAUBOUE.
JUNE, 1932. *La vraie figure du Socialisme.* E. PAYEN. *L'étalon-or, les prix et la spéculation.* M. CARSOW.

Weltwirtschaftliches Archiv.

JULY, 1932. *Ungelöste Probleme der gegenwärtigen Krisis.* B. OHLIN. The general problem of the misdirection of investment, above all during the boom of 1927–29, is discussed, whereupon the importance of structural maladjustments for the course of the present depression is analysed. The author then turns to a criticism of Hayek's recommendations of cost reductions and increased savings as remedies for the depression and to some observations on the "under-investment theory," which he finds sound but oversimplified. Lastly, the "stickiness" of prices and wages is analysed; the tentative conclusion is reached that certain forms of price fixity diminish the effects on the whole price system of deflationary tendencies.

Die Welthandelsentwicklung und das Problem der deutschen Ausfuhrpolitik. The article gives some of the results of the researches of the *Institut für Weltwirtschaft und Seeverkehr* which have just been published with the title, "German foreign trade under the influence of world economic developments." The driving forces which have caused the growth of world trade since the war are described; in the first place the changes in the industrial population's demand for food-stuffs, and then the increase in the demand for industrial raw materials which is caused by the development of industry and transport. On the other side are treated the opposing forces, the attempt to make countries self-sufficient in regard to agricultural products, rationalisation in the use of power materials, and protectionist restriction of trade between industrial countries. These tendencies and opposing forces caused, up to the crisis, an absolute growth of foreign trade although there was a decrease in the proportion of foreign trade to internal production.

They were also more favourable to the growth of trade between industrial countries on the one side and agricultural countries on the other than to trade between industrial countries. They led to a shifting of the centre of gravity (in regard to trade and production) towards the United States and other overseas countries. It is shown, however, that these developments do not mean a demoli-

tion of world trade and world specialisation of industries, and that even the crisis effects on trade represent a functional disturbance and not a dissolution of the world economy.

This study of the developments since the pre-war period is made the basis of an examination of the possible future developments of world trade, in the course of which it is shown that the sales possibilities in the raw-material producing countries are least exposed to danger in the long run. The possibilities of the organisation of greater economic units is tested and special attention given to the hitherto observable tendency towards economic disintegration in the British Empire and the tendency towards stronger integration of France with its colonies. In conclusion it is shown that Germany's industrial structure and world economic developments together indicate a goal for Germany's foreign trade policy, not a one-sided development in definite markets (*e.g.* South-East Europe), but the obtaining of unhindered sales possibilities in all markets, and especially in the raw-material producing countries.

Kapitalaufzehrung. F. A. VON HAYEK. The article analyses the process by which a rise of money costs and therefore incomes relatively to the current output of consumers' goods will lead to depreciation and consequent non-renewal of part of the real capital. The existence of great unused plant-capacity and of unemployment may, therefore, be the effect of an excessive demand for consumers' goods. Similar effects are produced when the consumption of capital is caused by a direct transfer of capital to consumptive purposes as, *e.g.* by a capital levy, death duties or similar forms of state intervention. The article discusses further in some detail the symptoms which must be expected to appear where a process of capital-consumption proceeds, and concludes with some considerations on the effects of the existing political systems on economic policy.

Die Krisis in Australien 1929–1932. E. R. WALKER. Three factors determine the violence of the effects upon Australia of the world crisis. (1) The nature of her relationships with other countries. (2) The internal situation when the crisis appeared. (3) The difficulty of making appropriate adjustments to minimise internal repercussions. The resultant disturbance is threefold: in the balance of payments, in the public finances and in industrial activity. Wages, the tariff, and monetary policy are discussed. The emergency measures adopted have been more successful with regard to the balance of payments than to the internal situation or the public finances.

Das sogennante Gesetz der abnehmenden Aussenhandelsbedeutung. M. VICTOR. The present German views on the diminishing significance of the volume of world trade are discussed theoretically and statistically. *Die Weltwirtschaftskrisis.* F. STERNBERG. Not only the present crisis but also the preceding conjuncture differ from earlier instances. The distinguishing factor is the smaller possibility of imperialist expansion and of the exploitation of new markets. The crisis is sharpened by the policies of monopolies. *Bevolkerung und Arbeitsmarkt.* P. MOMBERT. A discussion of the conditions in which unemployment can be referred to over-population, with some consideration of the increased employment of women.

Schmollers Jahrbuch.

APRIL, 1932. *Ueberbau und Unterbau, Theorie und Praxis.* E. ROTHACKER. *Die Deutungen der Sozialpolitik.* K. PRIBRAM. *Zur Lage der Sowjetwirtschaft. Teil I: Gewerbe und Landwirtschaft.* P. BERKENKOPF. *Gedanken zur Einführung einer ersten Kammer.* E. LIST.

Zeitschrift für Nationalökonomie.

MAY, 1932. *Die Wirkungen von Veränderungen der Kaufkraft des Geldes auf das Wirtschaftsleben.* C. A. VERRIJN STUART. *Kritische Bemerkungen zur wissenschaftlichen Grundlage der Ausbeutungslehre.* J. EINARSEN. *Grundlagen einer reinen Kostentheorie: Teil II.* H. VON STACKELBERG.

Archiv für Sozialwissenschaft und Sozialpolitik.

MAY, 1932. *Knut Wicksells Auffassung der Entwicklung des Preisniveaus und die Krise der schwedischen Währung.* E. SOMMARIN. *Internationale Konjunkturabhängigkeit und Autarkie.* E. DÖBLIN. *Die Liquiditätsstörungen und die Krise des deutschen Bankwesens.* G. BERNHARD. *Berichtigte Schätzungen zum Aufsatz "Substanzverluste."* J. MARSCHAK.

JUNE, 1932. *Grossenordnungen des deutschen Geldsystems.* J. MARSCHAK and W. LEDERER. *Der Zusammenbruch der Österreichischen Kredit-Anstalt.* W. FEDERN. *Ein Verfahren zur Ermittlung gleichwertiger Einkommen in verschiedenen Ländern.* H. STAEHLE. *Gegenwartsfragen der inneren Kolonisation.* K. A. WITTFOGEL.

JULY, 1932. *Cournotsche Gleichungen für beschränkten Wettbewerb.* W. G. WAFFENSCHMIDT. *Sozialer Aufstieg und Klassenschichtung.* S. RIEMER. *Gegenwartsprobleme der österreichischen Wirtschaftspolitik.* M. S. BRAUN. *Die naturlichen Ursachen der Wirtschaftsgeschichte.* K. A. WITTFOGEL.

Zeitschrift für die gesamte Staatswissenschaft.

JUNE, 1932. *Die ökonomischen Grundbegriffe Kapital, Vermögen, Einkommen, und Ertrag, in Finanzwissenschaft und Steuergesetzgebung.* E. H. VOGEL. *Struktur und Rhythmus der Weltwirtschaft.* F. EULENBURG.

Jahrbücher für Nationalökonomie und Statistik.

MAY, 1932. *Die Fiktion in den Wirtschaftswissenschaften.* A. SOMMER. *Der Konjunkturaufschwung und seine Verursachung.* E. CARELL.

JUNE, 1932. *Zur Soziologie der Bohème und ihrer Zusammenhänge mit dem geistigen Proletariat.* R. MICHELS. *Denkrichtungen in der mathematischen Oekonomie und Statistik.* P. LORENZ. *Ueber den Kapitalbegriff in der Forstwirtschaft.* M. LOREY.

Vierteljahrshefte zur Konjunkturforschung.

SONDERHEFT 26. *Der Immobiliarkredit.* G. KOKOTKIEWICZ.

SONDERHEFT 27. *Entwicklungstendenzen in der Eierwirtschaft.* H. v. D. DECKEN.

Finanzarchiv.

BAND I, HEFT I. (New Series.) *Zukunftsprobleme der Finanzgeschichte.* C. BRINKMANN. *Zum Problem der öffentichen Kapitalwirtschaft.* G. COLM.

Metron.

MARCH, 1932. *Intorno alla curve di concentrazione.* C. GINI. *Early Population Records in Spain.* P. G. EDGE. *Il reddito privato degli Italiani nel* 1928. L. MELIADÒ.

Giornale degli Economisti.

MARCH, 1932. *Il limite della trasferibilità dell' imposta.* A. G. CANINA. *La curva paretiana di distribuzione dei redditi e le illazioni che suggerisce.* A. LANZILLO. The writer holds that Pareto's law of the distribution of incomes is unquestionably valid, and that this distribution is a result of the inherent nature of Man. Inequality being a law of nature, the equalisation of incomes cannot be in conformity with a true conception of social justice. Pareto's law demonstrates the fundamental impossibility of communism. *Istituzioni estere affini al Consiglio nazionale delle corporazione.* G. BASSANI. Some brief notes on national economic councils in Portugal, Spain, Denmark and Belgium. *I trasporti marittimi.* G. MORTARA. The chapter dealing with maritime transport reproduced from Professor Mortara's *Prospettive Economiche* for 1932.

La Riforma Sociale.

MARCH–APRIL, 1932. *Camillo Supino.* A. GRAZIANI. *Il problema della seta in Italia.* E. GIRETTI. An article on the present position and difficulties of the silk industry in Italy by the writer, who is himself a silk-spinner. *Produzione e commercio dei concimi fosfatici in Italia.* A. DI STASO. *Decreti veneti sopra i domestici.* F. LUZZATTO. *Perchè la cooperazione di produzione ha conseguito scarsi progressi.* B. RIGUZZI. Some interesting observations by a co-operator on the problems and difficulties confronting co-operative production. *Confessioni di un industriale.* PROFESSOR EINAUDI reproduces some instructive reflections of a business man who has succeeded in maintaining his clientèle and making a profit in a competitive industry in the face of hard times. *Consigli in tempo di crisi.* G. SACERDOTE JACHIA. *La moneta "neutrale" in un libro del Dr. Hayek.* A. CABIATI. A review article, partly critical, but largely favourable, dealing with Dr. Hayek's recent book, *Prices and Production.*

Annali di Economia.

G. DEL VECCHIO: *F. Y. Edgeworth e le nuove teorie economiche.* The substance of a lecture given by Professor del Vecchio under the auspices of the Serena Foundation of London. The writer regards Edgeworth as ranking with Marshall and Pareto among the greatest economists of modern times. E. D'ALBERGO: *Intorno al concetto di costo dell attività finanziaria.* A discussion of the difficulties involved in any attempt at estimating the cost of the financial activities of the State. G. BASSANI: *La politica economica e i trattati di commercio dell' Italia dall' unità alla guerra.* A critical account of Italian commercial treaties from 1860 to 1914.

De Economist.

FEBRUARY, 1932. *Rubber.* G. A. P. WEYER. A comprehensive article on the economics of rubber production. The importance of rubber is recent and is due to the automobile. In the development of rubber there was greater risk than elsewhere, especially at the beginning. Figures as to the growth of the industry are difficult to obtain. In addition, rubber is not homogeneous in quality. Different results also are obtained from different systems of tapping, and there has been an improvement in quality with cultivation. Rubber differs from other products in that it is not a "harvest" in the ordinary sense of the word; it is "forced" by man. The native growers of rubber (*i.e.* in Java) are subject to different motives from the European planters, and it is not possible to say how they may react to changes in price. The article concludes on an optimistic note. It cannot be said that there is permanent over-production, or that capital sunk in rubber is precluded from yielding profit. The figures for consumption show a steady trend upwards, and it is impossible to foretell future uses. *Beschouwingen over onzen Buitenlandschen Handel in de na-oorlogsche-depressie*, II. W. L. VALK. A continuation of the study of Dutch foreign trade with reference to the crisis of 1920 and of to-day. Figures for the export and import of "animals and similar products" are analysed in the utmost detail from 1919 onwards. *Une application erronée des mathématiques a l'économie politique.* G. H. BOUSQUET. A criticism of the "false application of mathematics to Political Economy" inherent in the appendix to Mr. van de Woestijne's article on rationalisation in the previous October number.

MARCH, 1932. *Eenige beschouwingen over de historische betrekkingen tusschen godsdienst en kapitalisme.* P. J. BOUMAN. A discussion of the thesis advanced by Weber in his *Protestant Ethic*, and of subsequent literature on the same subject. In addition to the criticisms advanced by Brentano and Sombart, the writer deals with and summarises Tawney, *Religion and the Rise of Capitalism*; Warner, *The Wesleyan Movement in the Industrial Revolution*; Grubb, *Quakerism and Industry before* 1800, and Beins, *Die Wirthschaftsethik der Calvinistischen Kirche der Niederlande*, 1565-1650. His criticism of Weber is summarised in five points. (i) Weber under-estimated the influence of Catholicism on economic development. (ii) By virtue of the great importance he attached to economistic-rationalistic behaviour, his definition of capitalism was too narrow. Certain aspects of capitalism were hindered rather than strengthened by the oldest forms of Calvinism. (iii) He devoted too little attention to certain non-religious factors, which were favourable to the formation of economic rationalisation. (iv) He did not always correctly interpret his sources. (v) More recent literature shows that Weber saw too much continuity in the development of Calvinism. The oldest Calvinism, especially in England and Holland, was conservative and anti-capitalistic. *Productiebeperking, I.* I. CRANSBERG. A discussion of the consequences of limitation of production on economic life viewed as a whole, and in particular its alleged effects in mitigating economic crises. The losses to society of a restrictive policy are indicated, and it is argued, on the specific point more particularly considered,

that so far from encouraging restoration, it hinders recovery, since it diminishes purchasing power. Demand arises normally from production, and each new restriction, however advantageous it may be to those immediately concerned, postpones the return of general well-being. Conscious limitation of production is only justifiable in one branch of an industry, if simultaneously it is combined with extension elsewhere. While limitation of production is not the cause of the outbreak of the crisis, it is one of the principal causes of its deep corrosion and long continuance. *De Rationalisatie en de vraag*, I. W. J. VAN DE WOESTIJNE. A continuation of the article in the October number. The fall in the cost of production arising from Rationalisation is illustrated by reference to soap, boots, rubber and other industries. The article also discusses the relation of rationalisation to unemployment and the effects of price variations on demand for various kinds of goods, with examples.

APRIL, 1932. *Opzettelijke vermeerdering van koopkracht.* EMILE VERVIERS. An analysis of the meaning of purchasing power and a consideration of the problem whether, in times of depression, intentional increase of purchasing power is possible. Purchasing power is the same as total production in a given period, but the purchasing power operative may be affected by the mental outlook of those concerned. Material purchasing power may be the same, but the effective purchasing power is smaller in times of depression. There is thus an actual purchasing power and a potential purchasing power, influenced by the imagination, and these are not identical. Hence inflation, in a wider sense than that in which the term is ordinarily used. The policy of increasing purchasing power by high wages falls under this head, and the theory is exemplified by the American boom of 1927–29, which made purchasing power the source of well-being and represented advertisement as a fourth agent of production. Each new artificial increase of purchasing power, however, occasions new dearness and hampers the market, so that further artificial increase of purchasing power becomes necessary. In time the potential element in purchasing power works no longer, and there is a transition to deflation. The effects of increased purchasing power are shown to depend on the psychological factor which differs in the upward and downward phases of the cycle. Throughout there is emphasis on the importance of the mental and psychological factor. Man is anything but an economic animal; in economics it is the imponderabilia which count. *De Rationalisatie en de vraag, II.* W. J. VAN DE WOESTIJNE. A continuation of the previous article, comprising (i) a discussion of the cost-price curve; and (ii) a consideration of the position of rationalisation in regard to distribution. Rationalisation is in the main confined to the sphere of production. Figures are cited showing the increased cost of distribution and of the numbers therein engaged. The forces of production are in various ways pressing for a new system of distribution.

MAY, 1932. *Verstarringsverschijnselen in de kapitalistische Maatschappij.* R. VAN GENECHTEN. A general discussion of present tendencies in the structure of capitalistic society. *Vrijhandel en economisch herstel.* J. OORTWIJN BOTJES. Protectionist criticism of Professor Bordewijk's article in the January number, with a reply by Professor Bordewijk.

NEW BOOKS

British.

ABBATI (A. H.). The economic lessons of 1929–31. The first eleven bulletins of the Unclaimed Wealth Utilisation Committee. P. S. King. $8\frac{1}{2}''$. Pp. 94. 4*s*. 6*d*.

ALLCOCK (H. J.) and JONES (J. R.). The nomogram: the theory and practical construction of computation charts. Pitman. $8\frac{1}{4}''$. Pp. 209. 10*s*. 6*d*.

ANTHONY (S.). Women's place in industry and home. Routledge. $8\frac{1}{2}''$. Pp. 243. 10*s*. 6*d*.

BENN (E. J.). Honest doubt: or, The price of politics. Benn. 8″. Pp. 248. 6*s*.

BERKELBACH (A.) and HUTTON (D. G.). "The pinch of plenty": the world agrarian crisis. Sidgwick and Jackson. $7\frac{1}{4}''$. Pp. 172. 3*s*. 6*d*.

BLAKE (H.). World disorder and reconstruction. Allen and Unwin. $7\frac{3}{4}''$. Pp. 186. 6*s*.

BRITISH ASSOCIATION. Business and science: being collected papers read to the Department of Industrial Co-operation at the Centenary Meeting of the British Association for the Advancement of Science, London, September 1931. Sylvan Press. $8\frac{1}{2}''$. Pp. 310. 5*s*.

CASSEL (G.). The crisis in the world's monetary system: being the Rhodes Memorial Lectures, 1932. Oxford, Clarendon Press. $7\frac{1}{4}''$. 98 pp. 4*s*. 6*d*.

CHAMBERS (J. D.). Nottinghamshire in the Eighteenth Century: a study of life and labour under the Squirearchy. P. S. King. $8\frac{1}{2}''$. Pp. 377. 15*s*.

CLAPHAM (J. H.). An economic history of modern Britain: free trade and steel, 1850–1886. Cambridge University Press. $9\frac{1}{4}''$. Pp. 554. 25*s*.

CLARE (G.). A money market primer. 3rd ed. Revised by M. H. MEGRAH. Effingham Wilson. 9″. Pp. 287.

COLE (G. D. H.). Economic tracts for the times. Macmillan. $8\frac{1}{2}''$. 327 pp. 12*s*. 6*d*.

DOBB (M.). Soviet Russia and the world. Sidgwick and Jackson. $7\frac{1}{4}''$. Pp. 178. 3*s*. 6*d*.

EINZIG (P.). Finance and politics. Macmillan. $8\frac{1}{2}''$. Pp. 139. 7*s*. 6*d*.

GRIMM (F.). The thirty-fifth conference and Germany's answer. Translated by MARIE HAY. Williams and Norgate. $7\frac{1}{4}''$. Pp. 123. 2*s*. 6*d*.

Halley Stewart Lectures 1931. The world's economic crisis and the way of escape. By SIR A. SALTER, SIR J. STAMP, J. M. KEYNES, SIR B. BLACKETT, H. CLAY, SIR W. H. BEVERIDGE. Allen and Unwin. $7\frac{1}{2}''$. Pp. 194. 4*s*. 6*d*.

HARWOOD (P. J.). The reorganisation of the State (in relation to the present crisis). Ovingdean, Brighton, P. J. Harwood. $7\frac{1}{4}''$. Pp. 196. 1*s*.

HENDERSON (F.). Money power and human life. Allen and Unwin. $7\frac{1}{2}''$. Pp. 205. 6*s*.

HOBSON (J. A.). The recording angel: a report from earth. Allen and Unwin. $7\frac{1}{2}''$. Pp. 126. 3*s*. 6*d*.

HOUGH (E. M.). The co-operative movement in India. P. S. King. $8\frac{1}{2}''$. Pp. 340. 15*s*.

JEVONS (H. S.). The British steel industry. Pitman. 8½". Pp. 31. 1s.

JOHNSON (E. A. J.). American economic thought in the seventeenth century. P. S. King. 8½". Pp. 292. 12s.

KEEBLE (SIR F.). Fertilisers and food production on arable and grass land. Oxford University Press. 7¼". Pp. 196. 5s.

LARRAÑAGA (P. J. M.). Gold, glut, and government: a new economic dawn. Allen and Unwin. 7¼". Pp. 191. 6s.

MAXWELL (D. W.). The principal cause of unemployment. Williams and Norgate. 8½". Pp. 273. 7s. 6d.

MCGREGOR (A. G.). Raise wages! London General Press. 8½". Pp. 60. 2s. 6d.

PAPE (A. G.). The alternative to Communism. Cecil Palmer. 7¼". Pp. 126. 2s. 6d.

PATTERSON (E. M.). America: world leader or world led? Sidgwick and Jackson. 7¼". Pp. 174. 3s. 6d.

PEDDIE (J. T.). The measure of value solution of gold and silver problems. P. S. King. 8½". Pp. 45. 2s.

ROBBINS (L.). An essay on the nature and significance of economic science. Macmillan. 8½". Pp. 141. 7s. 6d.

ROBERTSON (D. H.). Banking policy and the price level: an essay in the theory of the trade cycle. 3rd impression, revised. P. S. King. 7½". Pp. 103. 5s.

RENATUS (K.). The twelfth hour of capitalism. Allen and Unwin. 7¾". Pp. 262. 7s. 6d.

SEYMOUR (J. B.). The Whitley Councils Scheme. P. S. King. 8½". Pp. 253. 12s.

SMITH (Adam). A catalogue of the library of Adam Smith. 2nd ed., prepared for the Royal Economic Society by James Bonar, with an introduction and appendices. Macmillan. 8¾". Pp. xxxiv+210. 21s.

SPALDING (W. F.). A primer of foreign exchange. 3rd ed. Pitman. 8½". Pp. 124. 3s. 6d.

WARDLAW-MILNE (Sir J.). The G.H.Q. of £ s. d. Cassell. 7¼". Pp. 130. 3s. 6d.

WIGGLESWORTH (F. and R.). The gold tangle and the way out. John Lane. 7¼". Pp. 245. 5s.

WINTERBOTTOM (A.). An inquiry into the employment of juveniles in Lancashire. Manchester, The University Press. 9". Pp. 23. 6d.

WITHERS (H.). Money in the melting-pot. Sidgwick and Jackson. 7¼". Pp. 138. 3s. 6d.

American.

ANGELL (J. W.). The recovery of Germany. 2nd ed. Oxford University Press. 8". Pp. 442. 22s. 6d.

CARROLL (M. R.). Unemployment insurance in Austria. Washington, Brookings Institution. 9". Pp. 52. 50c.

CLARK (H. F.). Economic theory and correct occupational distribution. Columbia University. 8". Pp. 176.

CUMMINS (E. E.). The labour problem in the United States. Macmillan. 9". Pp. 857. 18s.

GARRISON (E. E.). The riddle of economics. Macmillan. 7¾". Pp. 329. $2.50.

HOAR (R. S.). Unemployment insurance in Wisconsin. Stuart Press. 8½". Pp. 101.

JONES (E.) and BIGHAM (T. C.). Principles of public utilities. Macmillan. 8½″. Pp. 799. 21*s*.

RIGGLEMAN (J. R.) and FRISBEE (I. N.). Business statistics. McGraw-Hill. 9″. Pp. 707. 24*s*.

SELIGMAN (E. R. A.) and LOVE (R. A.). Price-cutting and price maintenance. Harper. 9″. Pp. 539. $6.00.

SLICHTER (S. H.). Modern economic society. Henry Holt. 9¼″. Pp. 909. $5.

WOODWARD (D. B.) and ROSE (M. A.). A primer of money. McGraw-Hill. 7½″. Pp. 261.

French.

ALLIZÉ (F.). Les problèmes économiques et financieres de l'argent-métal. Paris: Marcel Riviere. 9″. Pp. 64.

ANDRÉADÈS (A.). Les finances de l'Empire Japonais et leur évolution. Paris: Félix Alcan. 7½″. Pp. 203. 15 *fr*.

DESOUBRY (M.). L'argent-métal, la chute des cours de 1929 a 1931, et ses répercussions économiques. Paris: Les Presses Universitaires de France. 10″. Pp. 286. 40 *fr*.

HALADJIAN (B.). De la crise a la prosperité. Paris: Sirey. 8¾″. Pp. 135. 15 *fr*.

HÉRISSON (C.). Le contrôle du credit à court terme par la Banque d'Angleterre. Paris: Sirey. 10″. Pp. 462.

KOSZUL (J. P.). Les efforts de restauration financière de la Bulgarie (1922-1931). Paris: Félix Alcan. 10″. Pp. 467. 80 *fr*.

LESCURE (J.). Des crises générales et périodiques de surproduction: quatrième édition: 2 tomes. Paris: Loviton. 65 *fr*.

WAGEMANN (E.). Introduction à la théorie du mouvement des affaires. Paris: Félix Alcan. 10″. Pp. 127. 25 *fr*.

German.

BUSSE (H.). Die Golddevisenwährung, ihre Bedeutung in Vergangenheit und Gegenwart. Berlin, Georg Stilke. 9″. Pp. 134. 3 *m*.

KUNSTENAAR (J.). Der Finanzhaushalt des Völkerbundes mit besonderer Berücksichtigung der Hauptprobleme der Ausgabenpolitik. Zürich, Hans A. Gutswiller. 9″. Pp. 119.

LANGE (O.). Die Preisdispersion als Mittel zur statistischen Messung wirtschaftlicher Gleichgewichtsstörungen. Leipzig, Hans Buske. 9¼″. Pp. 56. 4 *m*.

MOLL (B.). Gerechtigkeit in der Wirtschaft? Berlin, Paul Parey, 9½″. Pp. 90.

SCHNEIDER (E.). Reine Theorie monopolistischer Wirtschaftsformen. Tübingen, J. C. B. Mohr. 9½″. Pp. 175. 13.20 *m*.

SOMARY (F.). Die Ursachen der Krise. Tübingen, J. C. B. Mohr. 8½″. Pp. 122. 6 *m*.

WOYTINSKY (W.). Internationale Hebung der Preise als Ausweg aus der Krise. Leipzig, Hans Buske. 9¼″. Pp. 163. 12.50 *m*.

Italian.

CASSOLA (C.). Scritti di economia e finanza raccolti da A. Graziani. Napoli. Pp. 116. 20 lire.

CASTELNUOVO (A. DI). Il problema della montagna. Roma, Cremonesi. Pp. 360. 30 lire.

MESSEDAGLIA (L.). Per la storia dell' agricoltura e dell' alimentazione. Piacenza, Federazione consorzii agrarii. Pp. 381. 35 lire.

MORTARA (G.). Prospettive economiche. Dodicesima edizione, 1932. Milan, Università Bocconi. 10". Pp. 615. 50 *l.*

SUPINO (C). Il capitale immaginario. Pavia, Treves. Pp. 85. 18 lire.

Dutch.

RENAUD (A. J. W.). Wholesale and Retail Prices in Holland and Belgium. Nederlandsch Economisch Instituut. 2 vols. Haarlem, Bohn.

DE JON (A. M.). De gouden standaard; rede uitgesproken bij de aanvaarding van het ambt van buitengewoon hoogleeraar aan de Nederlandsche Handels-Hoogeschool te Rotterdam op 25 Jan. 1932. The Hague, Nijhoff. 9½". Pp. 52.

Swedish.

AKERMAN (J.). Economic progress and economic crises. Macmillan. 8". Pp. 190. 12*s.* 6*d.*

Spanish.

GALVARRIATO (J. A.). El Banco de Espana, su historia en la centuria 1829–1929. Madrid, Graficas Reunidas. 8½". Pp. 416.

SELIGMAN (E. R. A.) and SHOUP (C. S.). Informe sobre el sistema tributario de Cuba. Habana, Talleres Tipograficos de Carasa y Cia. 10". Pp. 469.

Official.

LEAGUE OF NATIONS.

International trade statistics, 1930. 10½". Pp. 369. 10*s.*

The coal problem. Report of the Economic Committee. Pp. 55. 1*s.* 6*d.*

Report of the Gold Delegation. Pp. 83. 2*s.* 6*d.* London, Allen and Unwin.

UNITED KINGDOM.

An industrial survey of South Wales made for the Board of Trade by the University College of South Wales and Monmouthshire. H.M.S.O. 9½". Pp. 181. 3*s.* 6*d.*

An industrial survey of Merseyside, made for the Board of Trade by the University of Liverpool. H.M.S.O. Pp. 174. 2*s.* 6*d.*

An industrial survey of the South-West of Scotland made for the Board of Trade by the Staff of the Political Economy Department of the University of Glasgow. H.M.S.O. 9½". Pp. 220. 4*s.* 6*d.*

Statistical abstract for the British Empire 1924 to 1930. 61st no. H.M.S.O. 9½". Pp. 324. 5*s.*

Report by the Financial Commissioner (Lord Moyne) on certain questions in Kenya, May 1932. H.M.S.O. 9½". Pp. 122. 2*s.*

Committee on Official Statistics: Guide to Official Statistics: Vol. 10. Pp. 357. 1*s.*

Department of Agriculture for Scotland. Second Report on the profitableness of Farming in Scotland. H.M.S.O. Pp. 70. 1*s.* 3*d.*

NEW YORK STATE, Tax Commission. Federal and state tax systems. 3rd ed. Chicago, Commerce Clearing House, Inc. 15". Pp. 145.

THE ECONOMIC JOURNAL

DECEMBER, 1932

BRITAIN'S ACCESS TO OVERSEAS MARKETS[1]

THERE have been within the last few years a number of reports of special British Economic Missions [2] sent to various dominions and foreign countries to inquire into the difficulties which are being met in marketing British products overseas; in addition, there have been Government Committees [2] specially devoting their attention to this subject. Their efforts are an indication of the increasing anxiety with which the British export position is being regarded, and it is proposed to consider some aspects of their inquiries in the light of the events of the years after 1920. Statistical surveys have indicated that Britain had failed to recover in the post-war years a position comparable to that which she occupied in 1913 in the export trades; this lack of recuperative power was not merely absolute, as shown in the decreased quantity of her sales, which in the favourable years 1925–29 was estimated to be 10 per cent. below her level in the years before 1914, but it was relatively unfavourable in so far as world trade and the trade of some of our leading rivals were increasing at a more rapid pace and had easily surpassed their pre-war quantities.

The reasons advanced to explain this generally admitted slowing down of overseas sales have varied with the passing of years, but have fallen into two main groups: the first may be said to place emphasis upon the natural course of world development in production combined with the long series of casual misfortunes to which British trade has been specially subject; the other tends rather to urge that there is some special retarding

[1] Presidential Address to Section F of the British Association, York, 1932.

[2] Among these reports may be mentioned the following:

Report of the British Economic Mission to the Far East. 1931.

Report of the British Economic Mission to Argentina, Brazil, and Uruguay. 1930.

Report of the Cotton Mission to the Far East. 1931.

Interim Report of the Committee on Education for Salesmanship: British Overseas Marketing. 1929.

Final Report of the Committee on Industry and Trade. 1929.

cause operating in the case of British sales which is not present in the case of other countries, at least to the same extent. It finds this underlying cause in non-adjustable costs and in the suggested rigidity in the British income and price structure which has put it out of gear with the economic levels of price and remuneration in other countries.

Influences Limiting the Expansion of British Exports

It is obvious that the two reasons advanced are not necessarily separate and mutually exclusive; the second becomes prominent after 1925–26. Passing these influences in review, it may be said that the growth of local manufacture and the desire of many countries to develop what they believe to be their industrial resources have always been recognised as a main factor in the changes which have taken place. It is clearly a permanent influence which received special stimulation in the years after 1914; large groups of markets outside Europe found themselves cut off from their usual sources of supply for industrial products owing particularly to the absence of the two countries which held industrial leadership, Britain and Germany. New industries therefore grew up in India, China and Japan, in Brazil, Argentina and Chile, in Canada and Australia, which required some measure of protection to entrench themselves against the competitive power of long-established foreign organisations. This new effort was usually directed to the common grades of staple goods, leaving the upper ends of the markets and the specialities for later attention. The tendency is one which was familiar before the war period, in the textiles at least.

There is little need to labour the difficulties which accumulated in the years 1914–21 for the British staple export industries: fuel production, the textiles, the heavies, comprising general engineering, steel smelting, iron and steel rolling, together with shipbuilding, became, after 1921, the depressed group; the war period had naturally led to extreme over-development of the heavies and of shipbuilding, and had given to Japan and to the U.S.A. unrivalled opportunities of making new business connections in former British markets. For coal-mining the prospects seemed at first bright; neither the Ruhr nor the Nord coalfields recovered rapidly; but the return of these areas to full output, the development of the German lignite beds, the new Dutch coalfield, the Polish efforts in Silesia, as well as the technical advances in fuel economy, the growth of hydro-electric power, the use of oil fuel for shipping,

the expansion of road transport, placed a serious limit on British power of export. The industry was also damaged by the strike of 1926, and by the dislocation of its marketing through the method of paying reparations in kind. The textiles began to affect the position from 1924; the difficulties in the Far Eastern markets, the troubles in India, the successful competition of Japan, all played their parts.

The decline in the purchasing power of local populations was also commonly advanced as a cause of difficulty; it was stated that in the immediate post-war period the populations of certain regions, such as Russia, India, the Near East, the Far East, and Mexico, had suffered a decline in their standards of living, and that for a considerable period they would be bound to buy goods less expensive than those offered by Britain; they had drifted to a cheaper class of article than formerly. The evidence upon this matter is far from satisfactory, and it will be the subject of comment later in this survey.

The heritage of restrictive tendencies and of financial and exchange troubles left by the war years is a further factor which is held to have retarded recovery. No doubt the multiplication of customs tariffs, the enforcement of prohibitions and of trading by restrictive licences, the presence of special privileges in trade to particular industries such as national shipping, the use of State control and social monopoly by governments to avoid the ordinary liabilities of commercial trading, all exercised a limiting influence upon international trade, but by 1925 great progress had been made in removing the most serious obstacles, and the actual level of European tariffs was relatively little higher than that of 1913.[1]

The years after 1925 represent the second phase of recovery from war dislocations—namely, the growth of production, trade and general material well-being throughout the world; they were distinguished by rapid technological advance in agriculture and in certain new manufacturing industries, such as wireless apparatus, electrical goods, automobilism, and artificial silk. This somewhat unbalanced development led among other effects to a great cheapness of foodstuffs and raw materials. Britain benefited in so far as her exports fell relatively slowly in price, while her imports of food and raw material fell severely; she herself had no significant agricultural output of this type which was specially injured by falling prices, but many of her chief markets were found in regions of primary production to which her industrial output was mainly complementary, and in this direction she was subjected to losses.

[1] Cf. *Tariff Level Indices.* League of Nations Publication, 1927.

The return of Britain to the gold standard in April 1925 made the exchange position prominent and was held to have imposed a special handicap on the British export trades. The General Strike of 1926 and the inflationary movements in France, Belgium and Italy followed in turn; each administering its special short-period shock to the business system.

The list of unfavourable events leading on to the crisis which began in 1929 could be made more comprehensive, and it could be argued that Britain has been compelled through the pressure of events to recognise that her traditional dependence on a large overseas market to assist in the full employment of her people at relatively high standards of living is no longer feasible, and that her struggle to a new equilibrium position in world trade will involve an increased dependence on the home market and on those overseas markets where her special characteristic products hold their own at remunerative price levels, and the products of which are mainly complementary to the chief British industries. Britain might be held to be tending to an international position more like that of France, where the home and empire markets form the centre block of the foreign trade structure.

The difficulty with this form of interpretation of post-war development is that it does not make clear why Britain is in this special position of retreat or at least of slow advance as compared with countries whose resources seem less than her own. Mr. Loveday and others have stressed this point, and the following sentence from his essay on *Britain and World Trade* may be quoted: "The evidence is, it may be hoped, adequate at least to suggest that the difficulties [of Britain] are confined to no particular type of industry, major or minor, new or old, that they are due neither to the special prosperity in the Far East (or West) nor to the chaos in Europe which is passed, neither to inflation nor to deflation, that our successful competitors are drawn from all quarters of the globe and have pursued currency policies wholly dissimilar. Disorder and prosperity, depreciating and appreciating exchanges, tariffs and dumping, subsidies and prohibitions may all in fact have proved damaging; but there must surely have been some special reason connected with our internal economy which rendered them more disastrous to the United Kingdom than to other countries. But this view is too rarely expressed." [1]

The basis of this statement is the examination of international trade statistics from 1924 to 1929, which indicates that in a period of general prosperity, Britain's rate of advance was relatively

[1] Loveday, *Britain and World Trade*, pp. 170–171. 1931.

much slower than that of any other important trading country. It is not so much the depression of the depressed industries as the failure of the new industries to grow adequately which Loveday deems serious. The trade of the world had increased, but Britain's share had diminished. Mr. Loveday goes on to suggest that the Rueff [1] diagram, showing the numbers of unemployed and their relation to the ratio between wholesale prices and wages, leads one to think that a lack of adjustment of wages to prices is a serious cause of disequilibrium. This evidence seems hardly adequate as an analysis of labour costs; Mr. Cole [2] has worked over wages rates in different countries without finding that British wage levels had gone notably out of line with those of other industrial countries, and the question of labour costs raises broad issues of technical efficiency in industry. As the Macmillan Committee [3] have pointed out, several of our important industries are not among those which have been showing, of late years, the most rapid technical advance; they state that "in 1929 our exports of manufactured goods, though declining, were still greater than those of any other country in the world. At the same time, our real wages, whilst comparing unfavourably with those in the United States (which country, however, is unable to compete with us in world markets in our principal staple exports such as coal or textiles and many iron and steel products), were much higher than those paid by any of our chief European competitors." The maintenance of so great an export trade makes it unlikely that British technical efficiency is much behind that of her chief competitors. On the other hand, they blamed the return of sterling to pre-war parity in 1925 as a cause of the difficulties in export, while indicating that the organisation of British industry as distinct from its technique was often defective, and that we had been slow in applying ourselves on an adequate scale to certain of the newer industries.

Those who offer the above explanation of the export trade difficulties arrive, therefore, at the conclusion that it is the relatively high costs of certain British industries which have weakened their hold on old markets, and that the remedy is to reorganise output and reduce cost until it returns to its efficiency level with that of foreign competitors. It is then thought that the elasticity of demand for British exports in the world's trade will be such that expansion of a more rapid kind will take place.

[1] Jacques Rueff, *Les Variations du Chômage en Angleterre*. 1925.
[2] G. D. H. Cole, *British Trade and Industry*. 1932.
[3] *Report of Committee on Finance and Industry*, p. 53. 1931.

It is at this point that attention is naturally drawn to the side of demand and markets, to inquire if they cast any light upon these issues. The missions sent from this country to selected markets went to find out why Britain was losing her status in those areas, and within the limits of their opportunity gave certain answers.

The evidence bears upon three issues of importance affecting Britain's access to overseas markets :

(1) The characteristics of the market.
(2) The structure and efficiency of the distributing organisation.
(3) The position with regard to tariffs and the use of commercial diplomacy.

The Sales Position in the Markets

It is no doubt difficult to make any generalisations which cover so many different types of markets and so many commodities without introducing undue simplification. It is obvious that there are markets like India, where Britain sells *5s.*[1] of manufactures per head of population each year, and the Far East, where in a good year she may sell *1s. 6d.* per head of estimated population, at one end of the scale, and at the other end countries like Australia and New Zealand, where £10 per head is sold, whilst in between come areas such as Canada and Newfoundland with £2 *10s.* per head, the South American States with *36s.* to *40s.*, and Scandinavia with *28s.* to *30s.* In a populous low-grade market such as China, an increase in general prosperity is a most influential factor on purchases, whereas in a highly developed country an increase in numbers is for most industries an equally favourable sign.

In spite of these difficulties and limitations, a few general matters raised by the Economic Missions may be surveyed. It seems generally agreed that an increased choice of all classes of goods has become open to the overseas purchasers, and that the field of effective competition has broadened in most classes of goods, so that traditional business connections of a semi-monopolistic kind have lost much of their value. As this heritage of predominance was often British, it has followed that the offer of alternative choices affected her more than most other countries; the passing of exclusive markets has also meant that a much closer degree of adaptation to market requirements must be aimed at, since standard articles of consumption have to bear an increased

[1] 1927 estimates.

psychical wear and tear. This raises serious difficulties for the producer who had hoped to maintain mass output methods, but it appears to be a definite trend both in highly developed markets where it might be expected and also in more general markets such as India where it might not be expected. It must be kept in mind that methods of sale in the home market and in countries such as the U.S.A. and Australia have made rapid advance within recent years, and this striking change in outlook regarding sales and demand is bound to spread through the whole field of international commercial intercourse. The outlook is away from broad general sales towards differentiation of consumer groups.

Closely associated with the range, choice, and adaptation of the goods as produced, there has come increased emphasis on all those services which the purchaser requires to accompany a successful sale; these include "no trouble" quotations as regards language, prices, weights and measures, considered action regarding packing, its weight and suitability, a clear position regarding terms of sale, time of delivery, and terms of credit, and with some classes of goods the producer or his agent may require to instruct the purchaser both in the proper methods of use and upkeep. The net terms of purchase have come to cover much more than a price, and in some markets have given rise to considerable friction between buyers and sellers.

A somewhat widely quoted criticism of British selling methods has been that which urges that the quality of British goods is too good for their market, while their price is beyond its paying capacity. In the poorer markets like China, this point has, no doubt, substance, but it raises difficulties in industrial policy. If what is meant is that Lancashire, for example, is sticking to the upper end of the market and offering a better article at a higher price, then the question whether such extra quality is really dearer in actual use arises. If, on the other hand, an article with a short life at a low price is deemed adequate for the job, then this cheap grade must be provided if the connection is to be held. No doubt British industry cannot view with equanimity the loss of the cheap ends of markets; at the same time it must be recognised that there is more risk at the cheap end, since it is more open to competition from the foreign country's own industries as well as to that of other countries; the whole trend has been to leave the cheaper and rougher work to beginners or to countries with low levels of remuneration.

The evidence seems to suggest, however, that there has grown up a special type of cheap market for articles, either machine or

textile, which are rapidly scrapped either through the influence of fashion, invention, or through having served some limited purpose. The example of a special type of shovel,[1] light and fragile, used for unloading a cargo of coal and then thrown away so that no collecting, storing, or reissuing troubles might arise, is a case in point. It was not considered that this article compared in any way with a sound standard article, but its net advantages were deemed greater to the purchaser. Low price is, of course, vital for such sales, and as many such cases can be given, it seems worth further investigation whether recent invention in many fields is not creating a cheap substitute article to many old-established standard articles of such a character that an appeal is made to people with relatively high standards of living, and not merely to those who cannot afford anything better. A further difficulty emphasised in most of the reports is the credit and finance of sales, particularly of machinery and the more elaborate forms of capital equipment. It is not possible to consider in this paper how far British methods of export finance can be said to curtail unduly the period of credit granted to customers or to make it less liberal than before 1914 in important markets. It is clear that a sound policy would depend upon a considerable number of general and special factors: the duration of overseas credit must usually be longer than the period of domestic credit to cover transit time; the credit worthiness of the firms in a particular country or trade must be examined, the customs of the area under observation and the general attitude towards meeting obligations; agricultural countries require consideration of their crop position. No doubt sales may be stimulated by long credits. but if this merely means a loss of all profit or an accumulation of market risks and losses, it is simply unsound business dealing. Most countries, including Britain, have attempted within the years after 1920 to develop schemes of export credit, and of credit insurance to cover certain kinds of exports where a period of years was involved, but the State schemes have been carefully guarded in their scope and in their bearing of risks, and it seems doubtful how far they represent a useful approach to this problem.

The subject of suitable publicity and advertisement is one which is of considerable importance in most markets, and can be made a matter of joint effort between firms; advertisement is one of the best methods of conveying information to the consumer; if incomes are rising in a market it is a valuable aid in attracting part of the additional available purchasing power to the class of commodity concerned; in addition, it constitutes a useful check

[1] *Interim Report of the Committee on Education for Salesmanship*, p. 27.

upon the marketing organisation, since it strikes through to the consumer and keeps the commodity before his notice. In so far as other commodities are competing either directly or indirectly with the article of the advertiser, it may be necessary to engage in combative publicity in order to preserve a share of the market. The evidence suggests that British traders have not as yet developed so definite an outlook upon this form of expenditure as those of certain other countries.

The Structure and Efficiency of Distributive Organisation

The structure and working of the intermediary system have been the subject of examination and criticism within recent years, both in the home and overseas markets. Fundamentally, no doubt, the problem of providing a cheap and efficient marketing system is the same in both cases, but overseas distribution involves greater elaboration and complexity of services.

Broadly considered, the alternative channels are :

(1) The sale to merchants in Britain who sell overseas.
(2) The sale or consignment of goods to merchants overseas.
(3) The sale direct by the manufacturer's organisation abroad either through agents or through its own staff of commercial travellers.
(4) The employment of central selling agencies of a cartelised type, or joint selling organisations of an independent kind.

All these systems except the last are found on a considerable scale in British overseas trade. The view has been expressed that the merchanting system is the weak link in the chain, and that efforts should be devoted either to the creation of more direct and highly centralised methods of marketing or in other cases to various methods of strengthening the intermediary system to enable it to undertake the heavier modern task of keeping in touch with the market.

The main difficulty with the merchanting system is held to be the lack of incentive to push British goods; it is immaterial to foreign merchant houses whether they push the goods of a particular country or not; so long as British sales were the chief part of the market, it is said, the system grew up satisfactorily. An importer, of course, may aim at control of his market and attempt to screen it off from the producer, or alternatively, with a powerful manufacturing interest, he may become practically an exclusive agent for one firm. The method which has grown up particularly in

American business is to put manufacturers' direct representatives or service men alongside of the merchants, not to sell but to keep in touch with consumers and their outlook, as well as to use methods of publicity and marking of goods to acquire the goodwill and indirect control of the market.

There has been a tendency in many markets towards direct methods of marketing, even where the countries are not highly developed industrially; with some commodities, such as chemicals, cigarettes, and oil, it has even been possible to do up-country direct trading from depots managed by agents in China. These efforts to strike more directly through to the consumer are very familiar in domestic market organisations, but in these days of sensitive national feeling it seems prudent that the directness should be associated at least in part with the employment of citizens of the country the market of which is being served, either in associate companies or subsidiaries; it may also be wise to associate the market served with processes of assemblage, repair, and equipment, which confer on the commodity concerned a certain national status.

A main difficulty in overseas distribution is that small and medium-sized firms have little chance of using direct methods unless they combine. If they are cartelised, they may develop the central selling agency method, but if not, then the difficulty of access to overseas markets can only be overcome by some form of joint selling agency supported by firms the products of which do not directly compete with each other.

It is obviously impossible to say without detailed examination and trial which of these forms of distributive organisation is best able to survive and serve a given market, nor has any evidence of the relative costliness of these forms of marketing been available.

It is clear, however, the British Economic Missions have found in most of the markets they examined that high price is the chief difficulty facing British expansion, that demand has become much more sensitive and exigent in its requirements, that the intermediary structure is subject to serious criticism in many areas, and that new experiment and effort to keep in closer touch with consumers' outlook are due to be made in foreign as in domestic markets. A suitable illustration of these difficulties in selling organisation is found in the account given by the Cotton Mission to the Far East (1931) of the Chinese market for Lancashire piece goods, with its reliance upon importing houses and Chinese dealers, its troubles with credit and with dealers who depart hastily to "Ningpo more far" in lieu of paying their accounts. The mission examined the possibilities of centralised selling, and the ware-

housing at central points of stocks adequate to the market. The views expressed by those engaged in the trade laid stress on the necessity of continuing to use the Chinese intermediary system, whatever change might be made in creating a central body with depots to introduce and carry the goods.

The Need for Market Investigation

It may be asked, however, whether general surveys of market difficulties, such as the British Economic Missions have made, are either adequate for their purpose or convey any clear conception of the marketing position. In rapid visits they are bound to collect the faults and the fault-finders, without having time to get a sense of proportion. No doubt there are weaknesses in selling organisation, but Britain has no monopoly of shortcomings and her methods are much the same, it may be urged, as those of most of her competitors. Such questions are not capable of being directly answered; it is obvious that if the missions have found serious faults, attempts should be made to remedy them, even if the U.S.A. methods are also faulty; and further, with changing trade conditions it would indeed be peculiar if the field of selling organisation did not show tendencies to change, develop and experiment with new ways of adjusting demand. It is in fact well known that selling method has been changing rapidly in the large domestic markets of Britain and the U.S.A. within the last twelve years.

This is ground for asking if such missions get close enough to their work, and have a broad enough conception of their task.

What is really wanted is a thorough inquiry into the general market position as a background for action. There is the grading and grouping of consumers, the amounts of their family budgets and standards of living, their habits of expenditure, prejudices, preferences, methods of purchase; the general character of the distributive structure, the position of merchanting, agency, direct trading, and so on; the variations by regions and the variations by season in demand. Last comes the commodity marketing investigation, the position of old products and of new ones. The position of an established product may be described with reference to its users and present uses, the price limits within which it sells, the existing brands and qualities, reasons for successful expansion of sales or of failure, the completeness of its distributive arrangements and its usual terms of sale, delivery and so on. Methods of introducing new commodities to the consumer, the use of laboratory shops, estimates of potential demand, satiation points in con-

sumption, all may be the subject of close observation. It may be asked, Who is to undertake such laborious investigation? Much of it is already done in the U.S.A. and a little in Britain; the task would not be so overwhelming if it were systematically approached. No doubt manufacturers' own organisations and private agencies could undertake some of the work, but the suggestion may be made that the Department of Overseas Trade, which is in touch with all Britain's overseas markets, might be provided with a staff of marketing specialists [1] who would examine sales problems from this angle and who could undertake both general studies and commodity marketing studies. Such work would give a balanced view of the market examined, and could be carried out without offence to other countries; it is an entirely different type of task from that which the U.S.A. Tariff Commission imposed on its agents when it instructed them, some years ago, to inquire into the costs of production of certain industries in foreign countries. It should be possible to define the strength and weakness of a seller, to make some estimate of the extent of the existing market and the shares of different exporters. In addition, it should cast some light upon the elasticity of demand, and whether changes in the product or in its price would enable it to reach new groups of consumers. It is not a question of finding out whether a few firms sell badly and lose trade, but an entirely different attitude towards the possibilities of selling organisation which is most to be aimed at.

The Position with regard to Overseas Tariffs

From the standpoint of this paper the only issue which it is proposed to discuss in connection with tariffs is whether Britain is at any disadvantage compared with her trade competitors in gaining access to overseas markets. The central feature of her policy within recent times has been the unconditional interpretation of the "most favoured nation" clause: this has meant that Britain claimed by treaty, convention and custom that her goods should be admitted at the lowest rates into overseas markets; even if nations such as the U.S.A. did not accept the unconditional interpretation but insisted on "reciprocity," Britain has commonly enjoyed the benefit of the lowest available rates. The exceptions to this position have been few and unimportant in their relation to the export trades. The special circumstances where the clause

[1] The Economic Mission to the Far East (Report, p. 128) did recommend a service of specialists and experts, but the task assigned was not purely market investigation.

would not apply would be, for example, if there were a complete customs union between two countries which maintained their tariff against other countries: no third country could claim in virtue of the clause to introduce its goods duty free into the united territory. Colonial and Empire unions are commonly outside the scope. The case of the preferential rates between the U.S.A. and Cuba may be quoted as a general illustration. It can therefore be said that British trade is at least as favourably treated in foreign markets as that of any other exporting country, and it must be added that it is more favourably treated by certain of the overseas Dominions.

In so far, however, as Britain is the chief world exporter of manufactured goods, tariffs do in fact partially discriminate against her, since if the proportion of her exports be taken as 75–80 per cent. manufactured, while that of the U.S.A. is only 37–44 per cent., it follows that since finished goods tariffs have, until the last two years, ruled much higher than agricultural tariffs, Britain has faced the barrage on a larger portion of her trade than any other country except, perhaps, Germany. Again, the so-called "new industries" tariffs which have grown up since the war have probably proved a more serious obstacle to British and German trading interests than to those of other countries, since it is commonly fuel, power, textile, iron, steel and engineering developments which are first attempted in making the transition from the agricultural to the industrial state. A third matter seems to deserve mention: that the elaboration and differentiation of tariff ratings which have grown up have to some extent neutralised the favourable position given to Britain by the M.F.N. clause; they have made it possible to conclude bargains on those qualities of a commodity which lay outside Britain's scope, while making no change in those ratings which affected her trade.

Earlier in this paper it was pointed out that up to 1925 there was a distinct tendency towards freeing international commercial intercourse from its war fetters, and towards tariff simplification and stabilisation at levels not much higher than those ruling before 1914. That promise has not been fulfilled, and from 1927 to 1928 there has been a rapid upward movement not only in finished goods tariffs, but also in agricultural duties; no doubt this tariff marathon may be in part a passing phase due to the extraordinary rapidity with which prices have fallen, but it has raised one problem which may affect future British policy. It now appears as if bilateral treaties with the M.F.N. clause were not an adequate method of dealing with the tariff situation, and the only obvious

alternative is group negotiation and group treaties: if groups of nations begin to create tariff *blocs* within which lower duties prevail than those which are granted to outsiders, then the whole question of the unconditional interpretation of the M.F.N. clause would arise. It would hardly seem feasible for a European *bloc*, if it were formed, to allow the clause to operate in the case of high-tariff nations like the U.S.A. British commercial policy would have to secure that she was favourably received into all groups on similar terms to the constituent members, particularly into those which included many countries whose productive resources are mainly complementary to her own. Examples beyond the Empire would be the Scandinavian countries and the South American markets.

Looking therefore at British overseas trade from the angle of demand and sales, there seems a reasonable probability that its position would be relatively improved compared with that of other countries if special efforts were made to study and analyse the features of most of the overseas markets, and if the distributive organisation were developed to that level at which the British firms were able to keep in much closer touch with the sale of the goods overseas. The world is tending for many industries to become a "home" or "domestic" market, and it will have to be cultivated, developed, stimulated and studied with the same care and by many of the same methods as are applied by firms within their own country's frontiers. It need hardly be said that any policy which led to general reduction of tariffs to even the level of 1914 and imparted to them some freedom from continual change would assist particularly in the sale of British goods. Of the countries which have been most prominent in foreign trade development within recent years the U.S.A. is the chief; although she has displaced Britain as leading source of supply for many markets, a glance at her foreign trade shows that many of her exports are not directly competitive with those of Britain: as already mentioned, only 37–44 per cent. of her exports come into the finished goods class, and among these comes refined petrol as well as the typical American industries providing the "amenities" of life—motor-cars and accessories, films and cinematograph goods, electrical appliances, radio apparatus, typewriters, cash registers, office appliances, sewing machines, domestic refrigerators, gramophones, new types of agricultural and road-making machinery, oil-well plant, and so on. Motor-cars, gramophones and radio sets may mean, however, less Irish linen, less Sheffield cutlery and less English china and glass. Japan, which has proved so successful a competitor in the Far Eastern textile market, is a country which

shows 47–49 per cent. of her exports as finished goods, and of this 34 per cent. consists of cotton and silk textiles and allied products. It must be recognised that an able and industrious population, propinquity to the large Eastern markets, and an excellent geographical position between Asia and the American market are bound to make her a permanently serious competitor in the textile market, to which she has devoted her main efforts. Germany, which resembled Britain to a much greater degree in having 70–75 per cent. of her exports finished goods, finds markets for over 70 per cent. of her exports in Europe itself. Redistribution of markets has always been a normal incident in foreign trade history, and Britain's problem is to work her way through to a new equilibrium in foreign sales, and also to a new distribution of industries, both in the home and overseas markets.

R. B. Forrester

The University College of Wales,
Aberystwyth.

THE EFFECT OF REPARATIONS ON THE RATIO OF INTERNATIONAL INTERCHANGE

1. THE aim of this paper is to determine in what way the imposition on country A of an obligation to pay regularly so much reparations to foreigners alters the real ratio of interchange between its goods and foreign goods. By the real ratio of interchange is meant, for this purpose, not the ratio between the total quantity of what it sends abroad, including reparation goods, and the total quantity of what it receives, but the quantity of import goods that a private trader obtains in exchange for a representative unit of export goods. It is sometimes thought to be obvious, as a mere matter of common sense, that the real ratio of interchange as thus defined is bound to be turned against the reparation-paying country. This confident attitude must, I think, arise out of a failure to distinguish between the two senses, noted in the preceding paragraph, in which the term real ratio of interchange may be used. With the sense in which I am using the term here the problem is not simple, and the solution of it certainly is not obvious.

2. I postulate, of course, that productive technique, tastes and so on are the same both at home and abroad after the reparation arrangement has been entered into as they were before. Moreover, to keep the analysis that follows reasonably simple, I make the following assumptions. First, there is only one sort of good made in the reparation-paying country and only one sort made in the rest of the world. Secondly, conditions of constant return prevail. Thirdly, abstraction is made of differences in tastes and situation among individual Englishmen—for simplicity of language I use England throughout to signify the rest of the world—and individual Germans, so that each of the two countries is depicted as consisting exclusively of representative citizens, all of them exactly alike and behaving in the same way. Fourthly, I assume that, for each representative Englishman, the utility that he derives from a given quantity of English goods is independent of the quantity of German goods that he has, and *vice versa*; and similarly for each representative German. These highly abstract assumptions obviate many complications. They do not, however, I think, prevent the analysis that follows from being broadly

applicable to actual conditions, provided we suppose the reparation tribute to have been established long enough to allow the industrial structures of the reparation-paying and reparation-receiving countries to have been adjusted to it.

3. Let us suppose that initially, in the absence of reparations, X English goods are being traded against Y German goods every year. When reparations are imposed the German Government is under obligation to hand to the English Government an annual tribute of R English goods;—that is, with a constant price level for English goods, of so much English money. In certain conditions it will be impossible to satisfy this imposition. Thus suppose that Germany is normally sending so much of her exports abroad and buying with them so much imports; and that, on the top of this situation, she is subjected to an indemnity whose amount is expressed in English goods. If the indemnity exceeds the previous sum of English exports sent to her by us, so that it cannot be paid by Germany's dispensing with these exports, and if also the English demand for German goods in respect of enlarged quantities has an elasticity less than unity, Germany cannot, however much she increases her exports to us, provide the means of paying the indemnity. Indeed, the more she sends, the less of English goods she succeeds in buying. She may reduce her wage-rates to any extent and offer her exports no matter how cheaply; her effort is still bound to fail. As a last resort she is driven to create more and more German currency and to try to sell it direct against English currency. If she does this her necessary impotence to solve the real problem is reflected in a currency collapse. In this paper, however, we are concerned with normal conditions, not with the effects of political settlements that require something to be done which the economic situation precludes. We postulate, that is to say, that the tribute of R English goods per year that Germany is under obligation to pay is not so large that the German Government is unable to finance it. In these circumstances, after reparations have been imposed, England exports annually to Germany $(X + P)$ English goods—P being negative—and Germany exports to England $(Y + Q)$ German goods. These German goods buy, not only the $(X + P)$ of English exports, but also reparation receipts to the value of R English goods. Thus, though English exports have now become $(X + P)$ and German exports $(Y + Q)$, the real ratio of interchange between English goods and German goods, which was originally $\frac{X}{Y}$, has become, not $\frac{X+P}{Y+Q}$, but $\frac{X+P+R}{Y+Q}$. Our

problem is concerned with the relation of this new ratio to the original one.

4. If there were the same number of Englishmen as of Germans, a representative Englishman would deal in the same fraction of his country's imports and exports as a representative German would do. But, since the numbers are not the same, this is not so. If x measures total English exports and y total German exports, we must write for the representative Englishman's exports and imports nx and ny, and for the representative Germans mx and my.

Write then in respect of the pre-reparation period—

$\phi(nY)$ for the marginal utility to the representative Englishman of (nY) German goods;

$f(nX)$ for the marginal disutility to him of surrendering (nX) English goods;

$F(mX)$ for the marginal utility to the representative German of (mX) English goods;

$\psi(mY)$ for the marginal disutility to him of surrendering (mY) German goods.

We know that the ratio of interchange between English and German goods is $\frac{X}{Y}$. We also know that in equilibrium the ratio of interchange between any two exchanged goods must be equal, for each exchanger, to the inverse ratio of their respective marginal utilities: and we can construct equations of the type employed by Jevons in the fourth chapter of his *Theory of Political Economy*.

Thus
$$\frac{\phi(nY)}{f(nX)} = \frac{X}{Y} = \frac{\psi(mY)}{F(mX)} \quad . \quad . \quad . \quad . \quad . \quad . \quad (I.)$$

By precisely analogous reasoning in respect of the post-reparation period we have

$$\frac{\phi\{n(Y+Q)\}}{f\{n(X+P)\}} = \frac{X+P+R}{Y+Q} = \frac{\psi\{m(Y+Q)\}}{F\{m(X+P)\}} \quad . \quad (II.)$$

In order that the new ratio of interchange may be equal to the old, it is, therefore, necessary that

$$\frac{\phi(nY)}{f(nX)} = \frac{\psi(mY)}{F(mX)} = \frac{\phi\{n(Y+Q)\}}{f\{n(X+P)\}} = \frac{\psi\{m(Y+Q)\}}{F\{m(X+P)\}} \quad . \quad (III.)$$

The implications of these equations, regarded as general equations, are, of course, highly complex. It is legitimate, however, for an approximate result, to postulate that the functions involved are linear. The implications then are very simple, namely, that $\frac{\phi'}{f'} = \frac{\psi'}{F'}$. By an extension of the argument it can

be shown that $\frac{X+P+R}{Y+Q}$ is greater or less than $\frac{X}{Y}$, that is, that in consequence of reparations, the real ratio of interchange is turned against or in favour of Germany, according as $\frac{\phi'}{f'}$ is $<$ or $>$ $\frac{\psi'}{F'}$. It must be remembered that, since ϕ' and F' are obviously negative and ψ' and f' positive, both these quantities are negative. Hence, if we disregard sign, the above conditions are reversed. In order that the real ratio of interchange may be turned against Germany, $\frac{\phi'}{f'}$ must be numerically greater than $\frac{\psi'}{F'}$: in order that the real ratio may be turned in favour of her, it must be numerically less. If the functions are not linear, but do not diverge seriously from linearity, the real ratio will be turned against Germany if both $\frac{\phi'(nY)}{f'(nX)}$ and $\frac{\phi' n(Y+Q)}{f' n(X+P)}$ are numerically greater than $\frac{\psi'(mY)}{F'(mX)}$ and $\frac{\psi' m(Y+Q)}{F' m(X+Q)}$; and in favour of her in the converse case. If one of the two quantities set out first above is greater than the corresponding quantity set out second and the other less, no solution in terms of first differentials only can be obtained.

5. Let us now concentrate on the simple case of linear functions, and, for these functions, express our results in terms of elasticities of various sorts relevant to the quantities of goods that are traded in the absence of reparations. Write e_a, η_a for the elasticities of the English utility function in respect of German goods and disutility function in respect of sacrificing English goods; and e_g, η_g for the elasticities of the corresponding German utility and disutility functions. Then we have

$$e_a = \frac{\phi(nY)}{nY\phi'}$$

$$\eta_a = \frac{f(nX)}{nXf'}$$

$$e_g = \frac{F(mX)}{mXF'}$$

$$\eta_g = \frac{\psi(mY)}{mY\psi'}.$$

Hence
$$\frac{\phi'}{f'} = \frac{\eta_a}{e_a} \cdot \frac{X}{Y} \cdot \frac{\phi(nY)}{f(nX)} = \frac{\eta_a}{e_a} \cdot \frac{X^2}{Y^2}$$

and in like manner
$$\frac{\psi'}{F'} = \frac{e_g}{\eta_g} \cdot \frac{X}{Y} \cdot \frac{\psi(mY)}{F(nX)} = \frac{e_g}{\eta_g} \cdot \frac{X^2}{Y^2}$$

Hence the condition for the real ratio of interchange being turned against Germany is that $\frac{\eta_a}{e_a}$ is numerically greater than $\frac{e_g}{\eta_g}$: in other words, that

$$e_a \,.\, e_g < \eta_a \,.\, \eta_g.$$[1]

That is to say, the condition for the real ratio of interchange being turned against Germany is that the product of the elasticities of a representative Englishman's and a representative German's desires for foreign goods shall be smaller than the product of the elasticities of their desires for domestic goods. The chances of a movement favourable to Germany are smaller: (1) the more elastic the Englishman's desire for English goods; (2) the more elastic the German's desire for German goods; (3) the less elastic the Englishman's desire for German goods; and (4) the less elastic the German's desire for English goods.

6. We have now to translate this symbolic analysis into language and to make its significance plain. This is the more

[1] Let us call the elasticity of the English demand for German goods in terms of English goods ${}_dE_a$ and the elasticity of the German demand for English goods in terms of German ${}_dE_g$. Then we find by calculation

$${}_dE_a = \frac{1}{\frac{nY\phi'}{\phi(nY)} - \frac{Y}{X}\cdot\frac{nXf'}{f(nX)}} \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad \text{(I.)}$$

With units so chosen that $X = Y$, this gives ${}_dE_a = \frac{1}{\frac{1}{e_a} - \frac{1}{\eta_a}}$

In like manner

$${}_dE_g = \frac{1}{\frac{1}{e_g} - \frac{1}{\eta_g}} \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad \text{(II.)}$$

Let us write ${}_sE_g$ for the elasticity of Germany's supply of German goods for English goods. (Cf. *A Study in Public Finance*, p. 208.) This is not the same as ${}_dE_g$, but

$$= -{}_dE_g - 1$$

Hence

$${}_sE_g = \left\{-1 - \frac{1}{\frac{1}{e_g} - \frac{1}{\eta_g}}\right\} \quad . \quad . \quad . \quad . \quad . \quad . \quad \text{(III.)}$$

It is thus plain that the condition for the real ratio of interchange being turned against Germany is not, in general, expressible as a direct relation between the elasticity of the English demand in English goods for German goods and that of the German demand in German goods for English goods in respect of the quantities that would be traded in the absence of reparations, nor yet as a direct relation between the elasticity of the English demand in English goods for German goods and that of the German supply of German goods as against English goods in respect of these quantities. Though the elements that enter into our condition also enter into the expressions for those elasticities, they do not enter in such a way that the condition can be formulated in terms of those elasticities. In the special case, however, where η_a and η_g are both infinite—which, of course, implies that our condition must be satisfied—it follows from the equations in the text that ${}_dE_a = e_a$ and ${}_dE_g = e_g$.

necessary in that, while common sense would at once accept the implication that inelasticity of German desire for English goods makes it unlikely that the real ratio of interchange will be turned in her favour, the companion implication that inelasticity of English desire for German goods also has that effect seems *prima facie* unplausible. Let us consider then, by way of illustration, the way in which our formula works out in a number of limiting cases.

First, if the elasticity of English desire for English goods, η_a, is infinite, and none of the other elasticities are infinite, the real ratio of interchange must be turned *against* Germany. For the marginal utility of English goods to Englishmen is not diminished at all when, on account of reparations, they have to surrender less English goods abroad in order to procure the original quantity of German goods. Therefore, if the original terms of interchange are maintained, they will continue to procure that original quantity, partly by reparations and partly by purchase. But in these circumstances Germans are obtaining less English goods while sacrificing the same amount of German goods. Therefore to Germans the marginal utility of English goods is increased while that of German goods is left unchanged. For equilibrium, therefore, the total sendings of German goods must be increased and the terms of interchange moved against them.

Secondly, if the elasticity of German desire for German goods, η_g, is infinite, and none of the other elasticities are infinite, the real ratio of interchange must be turned *against* Germany. For the marginal disutility to Germans of surrendering German goods is not increased at all when more of them are surrendered. Consequently the fact of having to send out some German goods to buy reparation receipts does not cause Germans to require any better terms than before as an inducement to purchase for import to Germany the original quantity of English goods. Therefore, if the original terms of interchange are maintained, they will continue to import the original quantity of English goods while sending out the original quantity of German goods plus a further quantity for the purchase of reparation receipts. But in these circumstances Englishmen are obtaining more German goods while sacrificing the same amount of English goods. Therefore to Englishmen the marginal utility of German goods is decreased while that of English goods is left unchanged. For equilibrium, therefore, the sendings of English goods must be diminished, and, consequently, Germans will be prepared to pay more per unit for them.

Thirdly, if the elasticity of English desire for German goods, e_a, is infinite and none of the other elasticities are infinite, the real ratio of interchange must be turned *in favour of* Germany. For the marginal utility of German goods to Englishmen is not diminished at all when, on account of reparations, more are received. Consequently, if the original terms of interchange are maintained, Englishmen will continue to export the original quantity of English goods. But in these circumstances Germans are obtaining the original quantity of English goods while surrendering more German goods. Therefore to Germans the marginal utility of English goods is unchanged while the marginal utility of German goods is increased. For equilibrium, therefore, the total sendings of German goods must be cut down below what they would have been in the above circumstances. This can only be done if the terms of interchange are moved in Germany's favour.

Fourthly, if the elasticity of German desire for English goods, e_g, is infinite and none of the other elasticities are infinite, the real ratio of interchange must be turned *in favour of* Germany. For the marginal utility of English goods to Germans is not increased at all when fewer of them are obtained. Consequently, if the original terms of interchange are maintained, Germans will continue to export the original quantity of German goods, bringing back such reduced quantity of English goods as can be purchased with the surplus of German goods above what are required to buy reparation receipts. But in these circumstances Englishmen are obtaining the original quantity of German goods while surrendering fewer English goods. Therefore to Englishmen the marginal utility of German goods is unchanged while the marginal utility of English goods is increased. For equilibrium, therefore, the sendings of English goods must be increased above what they would have been in these circumstances. This can only be done if the terms of interchange are moved in Germany's favour.

Fifthly, if both the elasticity of English desire for English goods, η_a, and the elasticity of German desire for German goods, η_g, are infinite, and neither of the other elasticities is infinite, the sets of influences considered under our first and second heads both operate adversely to Germany. The condition contemplated is that in which the marginal utility of home-produced goods is constant in each country irrespective of the amount available, while the marginal utility of imported products is variable.

Sixthly, if both the elasticities of English desire for German

goods, e_a, and of German desire for English goods, e_g, are infinite and neither of the other elasticities is infinite, the sets of influences considered under our third and fourth heads both operate favourably to Germany. The condition contemplated is the precise converse of that described in the preceding paragraph.

Seventhly, suppose that either both η_a and e_g or both η_g and e_a are infinite while the other two elasticities are not. In this case our formula asserts that the real ratio of interchange is not affected at all by reparation payments. The condition contemplated is that in which the utility of one of the two articles traded in is constant to both countries irrespective of the amount available. This is the condition usually postulated (as an approximation) about money when, in domestic trade, money and particular commodities are being exchanged against one another. If I normally buy eggs from a farmer at such and such a price, and if, having written him a libellous postcard, I am ordered to pay him £10 a year reparations, the marginal utility of money will not be appreciably affected to either of us, and there will be no reason, therefore, for the price at which I get my eggs to alter.

Finally, it is obvious in a general way that the same consequences which follow from either η or e being infinite follow also from the corresponding e or η being nil.

7. In the light of this illustrative discussion let us now inquire what conditions may be expected to prevail in fact, as regards the magnitude of the related variables, when a single country is put under obligation to pay reparations, which must, in the first instance, be furnished in its own goods, to the rest of the world. Since the rest of the world (England) spends a large amount of its productive force in securing its own goods and a small part in securing German goods, there is a general presumption that, for a given absolute change in the quantity of productive force devoted to its own goods, and so in the quantity of those goods, the change in marginal utility will be much smaller than the change in marginal utility that will result from an equal absolute change in the quantity of its productive force devoted to German goods and in the quantity of those goods. Thus we may conceive of English labour and capital as divided up into n sections of equal size, $(n - 1)$ devoted to producing goods for English use directly and one to producing them indirectly by exchange abroad. If the utility curves representing the output of satisfaction from each of these sections are similar, as, in the absence of special knowledge,

we may presume them to be, it follows that the slope of the curve proper to the sum of the $(n-1)$ sections will be much smaller than—with linear functions $\frac{1}{n-1}$ times as large as—the slope of the curve proper to the single section. This implies that f' is (numerically) much smaller than ϕ' and so that $\frac{\phi'}{f'}$ is (numerically) much larger than unity. By analogous reasoning, though, since the imports of one country from the rest of the world necessarily play a larger part in her consumption than her exports to the rest of the world play in the rest of the world's consumption, the case here is not too strong, ψ' is likely to be smaller than F'. Therefore $\frac{\psi'}{F'}$ is likely to be numerically less than unity. Thus in general there appears to be a very high probability that $\frac{\phi'}{f'}$ is numerically much larger than $\frac{\psi'}{F'}$: *i.e.* that $e_a e_g < \eta_a \eta_g$, which is the condition that the real ratio of interchange is turned against Germany. Thus apart from peculiar circumstances, in which the desire for imported goods is abnormally elastic in either or both Germany and England, we may conclude with confidence that the imposition of a reparation obligation will turn the real ratio of interchange substantially against the reparation-paying country.

8. The implications of this analysis for the general price levels of Germany and England cannot, of course, be determined until the term general price level has been precisely defined. As we have done throughout, we suppose that Germany makes one sort of commodity only and England one sort only. Let us suppose further that the two countries are linked together by a gold standard. The cost of transport being ignored, alike before and after reparation payment from Germany to England has been undertaken, the gold price of English goods is equal in the two countries, and so also is the gold price of German goods. If, in consequence of reparation payments, the real ratio of interchange is turned against Germany, the gold price of German goods falls relatively to the gold price of English goods: in the converse case the opposite of this happens. Therefore, if the general price level in each country means the price level of the goods produced in that country, it follows that, should the price level in England remain unchanged, the price level in Germany, when reparations have to be paid, will be lowered or

raised in the same proportion as that in which the real ratio of interchange is turned against Germany or in her favour. Since, as we have seen, this real ratio is extremely unlikely to be turned in Germany's favour, it is extremely unlikely that the general price level there will rise; but it is not *impossible* for this to happen.

9. If the general price level in each country means the price of the collection of goods (composite commodity) consumed there before reparations began, or if it means the price of the collection consumed there when reparations are being paid, or if it means the price of any defined composite commodity intermediate between these two collections, the issue is more complex. Let us suppose the general price level to mean for each country the price of the composite commodity consumed there prior to reparations. Write E for the quantity of English goods and g for the quantity of German goods then consumed in England, G for the quantity of German and e for the quantity of English goods then consumed in Germany; and p and q for the price of English and German goods respectively. Then the general price level in England is $\frac{pE + qg}{E + g}$; and in Germany $\frac{pe + qG}{e + G}$. After reparations have been imposed the price level in England is $\frac{p'E + q'g}{E + g}$; and in Germany $\frac{p'e + q'G}{e + G}$. If then the price level in England is unchanged, we have $\frac{p'E + q'g}{pE + qg} = 1$ (I). If the real ratio of interchange has been altered in a given manner we have $\frac{q'}{p'} = m\frac{q}{p}$ or $\frac{q'}{q} = m\frac{p'}{p}$ (II). The ratio of the new divided by the old price level in Germany is $\frac{p'e + q'G}{pe + qG}$. With the values of E, e, G and g unrestricted it is obviously impossible to determine, from the two equations (I) and (II) together with a knowledge of the value of m, whether this ratio is greater or less than unity. If, however, as will in general be true, e is small relatively to E and g relatively to G, equation (I) yields as an approximation $\frac{p'}{p} = 1$ and the ratio of the new to the old German price level is approximately $\frac{q'}{q}$. It then follows from equation (II) that this is greater or less than unity according as m is greater or less than unity.

Provided, in short, that e and g are small relatively to E and G, a measure of general price level in Germany calculated in the more complex manner of this section will move in approximately the same way as the measure postulated in the preceding section. It will probably, though not certainly, be affected by reparation payments in the same way. It is extremely improbable, but not impossible, that, the English measure remaining unchanged, the German measure, after the payments have been imposed, will rise.

10. The suggestion that, the English price level remaining unchanged, it is theoretically conceivable for the German price level to rise, presents itself to some persons, when looked at from the money side, as a violent paradox, which *must* be false. It is *impossible*, they hold, for the reparation goods to get out of Germany into England unless the price level in Germany falls relatively to the English price level. A consideration of the money mechanism involved renders this, as they hold, obvious. This view, I suggest, involves a misunderstanding of the way in which that mechanism works. To show this I postulate a state of things in which reparation payments leave the real ratio of interchange exactly what it was before: and in which, therefore, all the trade transactions that used to go on still go on with the reparation payments superimposed on them. If this state of things, which has been shown above to be theoretically possible, comes about, the price level, as defined in section 9, in both countries will, other things equal, be unaltered. There is no difficulty about the monetary mechanism. Both countries produce the same quantity of goods for the same aggregate money cost of production as before. Therefore they have the same aggregate money incomes. But every year out of the money income of the reparation-paying country, Germany, there is transferred gratuitously to the reparation-receiving country, England, £50 million, say, in gold. This gold does not stay in England, but is immediately on receipt handed back to Germany in purchase of her reparation goods. There is nothing in the monetary mechanism to prevent this state of affairs from arising and continuing indefinitely. Nor is it any harder to envisage a monetary arrangement that would allow of the German price level actually rising. As before, the £50 million handed over annually to England in gold is handed back to Germany in purchase of reparation goods. But in this case equilibrium in respect of traded goods has been disturbed to the disadvantage of England. To restore equilibrium other gold moves from

England to Germany *and stays there.* On the basis of this, aggregate money income and the price level in Germany are both raised above what they were before. I am not, of course, suggesting that this is likely to happen. On the contrary, I have argued explicitly in section 8 that it is exceedingly unlikely to happen. The purpose of this section is simply to show that a consideration of the monetary mechanism involved yields nothing incompatible with the results of the earlier non-monetary analysis.

A. C. Pigou

IMPERFECT COMPETITION AND FALLING SUPPLY PRICE

THE conception of falling supply price was submitted to a severe examination by Mr. Sraffa in his article on "Laws of Returns under Competitive Conditions,"[1] and the subject was further discussed in the "Symposium on Increasing Returns and the Representative Firm"[2] and in two articles by Mr. Harrod.[3] The upshot of the discussion may be summarised as follows: If competition is perfect, and if no frictions prevent firms from growing to their equilibrium size, then falling average costs for the individual firm cannot occur. Falling supply price for a particular commodity must then be due, if it ever occurs, to those economies of large scale depending solely upon the size of the single industry, of which Mr. Sraffa doubts the existence. On the other hand, if frictions prevent firms from reaching equilibrium, or if competition is imperfect, so that in equilibrium the firms may be of less than optimum size, then falling average costs for the individual firm may occur, and the possibilities of falling supply price for the commodity are very much widened. The contribution that I hope to add to these conclusions is to demonstrate that while the presumption that average costs to the firm will be falling is far stronger than these writers suggest, the presumption that supply price will be falling is far weaker than they suppose.

The problems which arise from the fact that firms take time to reach equilibrium will not be considered in this article. It is only with imperfect competition that I wish to deal. If the problems arising from the passage of time are ignored, the question which remains to be answered is this: Is the existence of imperfect competition sufficient by itself to account for falling supply price? In order to isolate this one question and to reduce it to manageable terms, certain severe assumptions must be made.

To eliminate the problems connected with time I will assume first that the efficiency and the costs of individual firms do not alter with the passage of time, but only with changes in the scale of

[1] Sraffa, ECONOMIC JOURNAL, December 1926.
[2] ECONOMIC JOURNAL, March 1930.
[3] Harrod, ECONOMIC JOURNAL, June 1930, December 1931.

output; and secondly, that each firm is always in individual equilibrium, in the sense that it is always able to produce that output at which its marginal gains are equal to its marginal costs.

To isolate the effect of imperfect competition upon supply price it is necessary to assume that every other possible source of changing supply price is eliminated. I will therefore assume that every factor of production is homogeneous; that every factor is in perfectly elastic supply to the industry; and that there are no economies of large-scale industry. The last assumption requires to be elaborated. It entails that there shall be no external economies of the type which arise when some subsidiary industry is working under falling supply price, and it entails that there shall be no economies of lateral or vertical disintegration arising from the specialisation of firms upon a smaller number of products or upon fewer stages in the productive process. Lastly, it entails that the efficiency of every factor of production is independent of the amount of the factor employed in the industry. By these assumptions conditions are postulated in which, if competition were perfect, the industry would be producing at constant supply price.

Finally, to simplify the problem, I will assume that all firms are alike in respect of their costs and of the conditions of demand for their individual outputs.[1]

If competition is not perfect, it is possible to draw up a demand curve for the output of each individual firm in the manner suggested by Mr. Sraffa.[2] This individual demand curve will be influenced by the total demand for the commodity, by the prices charged by other firms, by the number of other firms, and by the nature of the market imperfection. The fact that when the market is imperfect the individual demand curve will also be influenced by the expenditure of the firm on advertising, providing facilities to customers, and so forth, presents a problem which has never been satisfactorily solved. This problem can be evaded if we assume that the imperfection of the market arises solely from differences in transport costs incurred in respect of different purchases from the single firm, or from such differences between

[1] This does not, of course, entail that the firms are alike from the point of view of individual buyers. If they were, the market would be perfect. But individuals with different scales of preferences, as between any one firm and the others, are assumed to be grouped symmetrically, so that the demand curves of the separate firms are all alike.

[2] *Loc. cit.*, p. 546.

customers in their preferences for particular firms as cannot be altered by the action of the firms themselves. It may be objected that this assumption rules out all the most common types of market imperfection; but this objection, though certainly valid, is not relevant to the particular argument here set out. On this assumption there will be a definite demand curve for the output of each firm, independent of its costs. In order to increase its sales, the firm must lower the price at which it sells. Every decrease in the price charged by a firm will lead to some increase in its sales, but not to the indefinitely large increase which would occur if competition were perfect and the individual demand curve perfectly elastic. From the individual demand curve of each firm can be derived its individual marginal revenue curve.[1] This marginal revenue curve shows the increment of total receipts due to a unit increase in the output of the firm. It is this curve which governs the output of the firm. The profits of the firm are maximised when marginal revenue is equal to marginal cost, and the output of the firm in any situation will therefore be given by the intersection of the marginal revenue curve and the marginal cost curve of the firm. When this output is being produced, the firm is in equilibrium, in the sense that in the given situation it has no motive to increase or to reduce its output. Since we have assumed that all firms are alike, each must be supposed to act in the same way, so that a single price always rules throughout the whole market.

The individual equilibrium of the firms is established in this way. We must next consider the equilibrium of the industry. If entry into the trade is possible, the industry will only be in equilibrium when profits are normal. If profits are more than normal, new firms will tend to enter the industry, and its output will tend to increase. If profits are less than normal, firms will tend to leave the industry, and its output will tend to decrease. Only when profits are normal will there be no tendency for the output of the industry to alter.

The notion of free entry into the trade may appear at first sight to be incompatible with the notion of an imperfect market. The same causes which make markets imperfect—for instance, the goodwill of old-established firms—make entry difficult. If the market is imperfect, the prospect of profit necessary to tempt a new firm to enter it will therefore be higher than if it were perfect. But it does not follow that profits in the industry are more than normal, for the entry into other trades may be equally

[1] This is the "increment of aggregate demand curve" of Mr. Harrod.

difficult. The level of profits may be everywhere kept high by the existence of market imperfection, but it is only in a trade into which entry is unusually hard that profits will be unusually high. In any case, this objection is irrelevant, for under the conditions postulated the level of profits earned when the industry is in full equilibrium is independent of the size of the industry. It is sufficient to define normal profits in respect to the particular industry, and it is that level of profits any excess above which will attract new firms. The proposition that the industry is in equilibrium only when profits within it are normal is then reduced to a tautology.[1] It is only when no level of profits, however high, is sufficient to overcome the resistance which prevents firms from entering the industry, that this proposition fails to be true. When such a case occurs, we may say that the industry is always in equilibrium or never in equilibrium, whichever we please.

I will postulate, therefore, that in our industry there is a certain level of profits which is normal in this sense. Then, since all firms are assumed to be alike, there is no difficulty in including normal profits in the long-period cost of the firm. Average cost for the firm will include the average, per unit of output, of the normal profit, along with other costs. It follows, when average cost is defined in this way, that the industry is in equilibrium only when price is equal to average cost.

The equilibrium of the industry thus requires a double condition. Marginal revenue must be equal to marginal cost, and price must be equal to average cost. This double condition of equilibrium can be fulfilled only when the individual demand curve of the firm is a tangent to its average cost curve.[2] For if the demand curve everywhere lies below the average cost curve, no output can be produced at normal profits. And if the demand curve anywhere lies above the average cost curve, there will be a range of outputs at which an abnormal profit can be made; among these outputs the firm will choose the most remunerative, and profits will be more than normal. Only when the demand curve is

[1] It must be freely admitted, however, that this whole method of approach is very artificial. An increase in demand attracts new entrepreneurs to the industry directly, by opening up some new possibility of profitable investment, rather than indirectly, by making their mouths water at the sight of the high profits of the existing firms. The abnormal profits are a symptom rather than a cause of the situation in which new firms will find it profitable to enter the trade. But the artificial device of regarding the abnormal profits as a causal factor is of great assistance in simplifying the formal argument, and provided that its artificiality is recognised, it seems permissible to make use of it.

[2] I am indebted for this proposition to Mr. R. F. Kahn, who, in turn, derived it by pursuing Mr. Sraffa's argument to its necessary conclusion.

a tangent to the average cost curve will profits be normal.[1] Thus, whenever the demand curve of the individual firm lies above its average cost curve, new firms will be attracted into the industry by the abnormal profits, and their competition will lower the individual demand curve again until it is once more tangential to the average cost curve. For the output at which the demand curve and the average cost curves are tangential the marginal revenue curve must cut the marginal cost curve.[2] This is obvious from the fact that at this output the difference between total revenue and total cost is at a maximum. In each diagram *AC* and *MC* are the average and marginal cost curves of the firms,[3] *AR* is the demand curve, or average revenue curve, *MR* is the marginal revenue curve. OM is the output produced when the

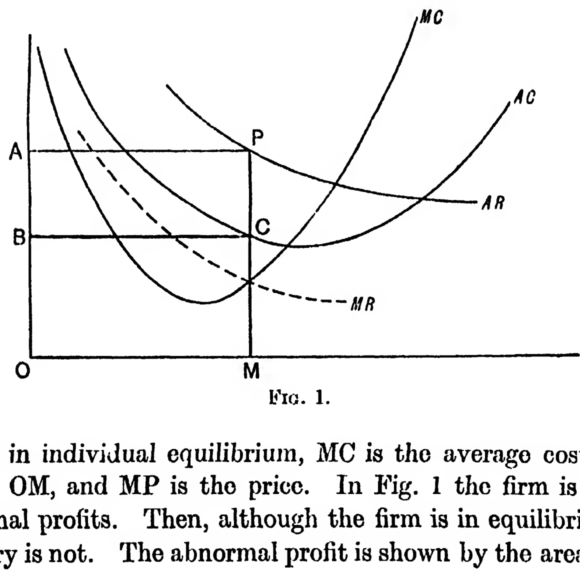

FIG. 1.

firm is in individual equilibrium, MC is the average cost of the output OM, and MP is the price. In Fig. 1 the firm is making abnormal profits. Then, although the firm is in equilibrium, the industry is not. The abnormal profit is shown by the area APCB.

[1] Mr. Harrod (ECONOMIC JOURNAL, December 1931, p. 572) appears to suggest that the double condition of equilibrium—that price should equal average cost while marginal revenue equals marginal cost—will be fulfilled only by an accident. This suggestion is not confined, as he maintains (see ECONOMIC JOURNAL, September 1932, p. 492), to a mistake in drawing the diagram, but is embedded in the structure of his argument.

[2] A formal proof of this relation can be derived from Mr. Harrod's formula (*loc. cit.*, p. 570): $M = A - \frac{A}{\epsilon}$, where M is a marginal value, A the corresponding average value, and ϵ the elasticity of the average curve. For the output at which two average curves are tangential, A (in this case the price) is the same for each, and ϵ is the same for each. Therefore M must be the same for each.

[3] These curves are shown as rising after a certain point. But one of the benefits of the method of analysis inaugurated by Mr. Sraffa is that it is equally applicable to cases in which the optimum size of the firm is indefinitely large.

In Fig. 2 profits are normal, C and P coincide (average cost is equal to price), and the area APCB disappears. The double condition

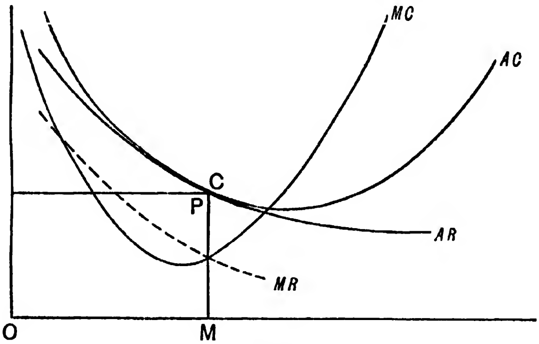

Fig. 2.

of equilibrium is thus fulfilled when the individual demand curve is a tangent to the average cost curve.

We have now reached the first stage in the argument. In conditions of full long-period equilibrium it is not only true that average costs for the individual firm *may* be falling: they *must* be falling.[1] But the question remains: Is it the case that falling average cost to the firm necessarily leads to falling supply price for the commodity? Each writer who has contributed to the discussion so far appears to regard the prevalence of falling supply price as established as soon as he has established the fact that

[1] Mr. Shove (in the "Symposium") and Mr. Sraffa do not contemplate full equilibrium of the type here described. They observe that under imperfect competition average costs for the firm may be falling, or may be rising, and this is, of course, perfectly correct, for the industry may be out of equilibrium. Mr. Harrod discusses long-period equilibrium, but he does not appear to recognise that the mere existence of imperfect competition is a sufficient explanation of falling average costs for the firm in equilibrium conditions, and that it is definitely incorrect to say that in equilibrium average cost may be rising. He resorts, for an explanation of falling average costs, to the fact that the optimum size of a firm (at which average cost is a minimum) may alter faster than the firm can grow (*loc. cit.*, p. 574). This is a point of great interest, but it is not necessary to the matter in hand. The firm will be of less than optimum size, in an imperfect market, however long the optimum remains unchanged. Further, he introduces into the argument the reluctance of firms to combine, although competitive marketing costs may be reduced by amalgamation (*loc. cit.*, p. 573). Here he is hard to follow. Surely the principal advantage of amalgamation arises not from a reduction in marketing costs, but from the fact that the elasticity of demand, for any individual productive unit, is less the larger the proportion of the total output that it controls? In more old-fashioned terms, is not the chief inducement to firms to amalgamate the prospect of making a monopoly profit? Until Mr. Harrod has discovered why, in the face of *this* inducement, firms are not combined, he has no reason to be puzzled that the possibility of saving on advertisement cost is not a sufficient inducement to make them combine.

average costs to the firm may fall. The purpose of this article is to challenge that view, and to show that, when average cost for the firm is falling, it by no means follows that supply price for the commodity is falling.

Starting from a position in which the industry is in equilibrium, suppose that the total demand for the commodity is increased. The individual demand curves will then be raised, and since all firms are assumed to be always alike in respect of conditions of demand, all the demand curves will be raised in the same way. The output of each firm will then increase, and its average costs will fall. The price of the commodity may rise, fall, or remain constant,[1] but, in any case, the firms will receive a surplus profit in excess of the normal profit which is included in average cost (cf. Fig. 1). New firms will now be attracted into the industry; since every factor is in perfectly elastic supply, these new firms will have the same costs as the old. The total output of the commodity will be further increased, and the competition of the new firms will lower the individual demand curves of old firms. A new position of long-period equilibrium will be established when the individual demand curves are once more tangential to the average cost curves.

The question which I set out to answer still remains. In the new position will the price of the commodity be less than before? Clearly the answer depends upon the manner in which the demand curves move as they fall back towards an equilibrium position.[2]

If the individual demand curve does not alter its slope, it will fall back to exactly the same position as before. The output of each firm will be the same in the new position as in the old, and the increase in the number of firms will be in proportion to the increase in the total output. The price of the commodity will be unchanged.

[1] It would be possible to pause at this point and examine the short-period situation, but such a discussion would be lengthy and not immediately relevant to the argument. The short-period supply curve for a fixed number of firms in an imperfect market can be constructed by means of technique similar to that which is here employed. A discussion of Mr. Harrod's treatment of the subject would start several fresh hares.

[2] It is therefore impossible to draw up a supply curve for the commodity without postulating what type of change in demand is to occur. This difficulty does not only arise, as Mr. Harrod appears to suggest (*loc. cit.*, p. 572), from the fact that the individual demand curves may not be independent of the cost curves of the firms. It has equal force when the individual demand curve cannot be affected by expenditure undertaken by the firm. But I think it is misleading to have the feeling, which I myself had for a long time, that the supply curve under perfect competition really *is* a supply curve in a sense in which all other supply curves are not. In every case, in drawing up a supply curve, it is necessary to make some assumption about the conditions of demand for the separate firms. The assumption of perfect competition is merely the simplest and the most usual of all the assumptions that can be made.

If the individual demand curve is less elastic in the new position, it will reach an equilibrium position in which its point of contact with the average cost curve is to the left of the old point. The output of each firm in the new situation will be smaller than in the old situation. The increase in the number of firms will therefore be more than in proportion to the increase in output. Since the output of the individual firm has decreased, its average cost will be raised, and the price of the commodity will be raised.

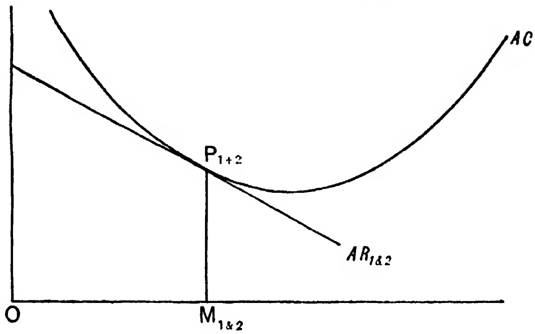

Fig. 3.

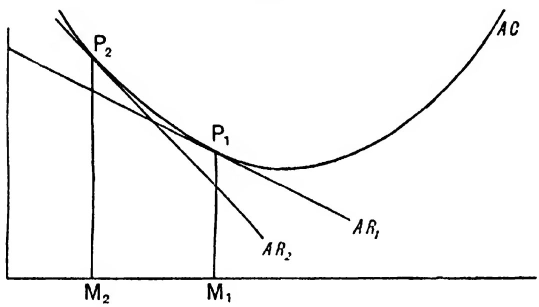

Fig. 4.

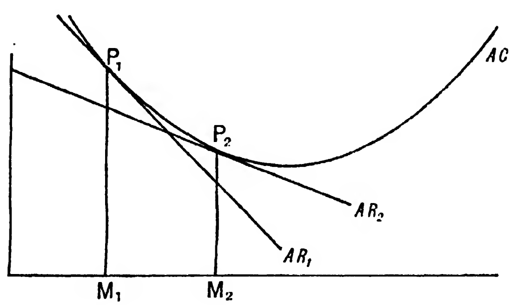

Fig. 5.

Conversely, if the individual demand curve is more elastic in the new situation, the price of the commodity will be lowered.

In each diagram AC is the average cost curve of the firm, AR_1

and AR_2 are the old and new demand curves, OM_1 is the output of the firm in the old situation and M_1P_1 its price. OM_2 is the output in the new situation and M_2P_2 its price. In Fig. 3, M_2P_2 is equal to M_1P_1. In Fig. 4, M_2P_2 is greater, and in Fig. 5, less, than M_1P_1.

From this analysis we can obtain the answer that, in the conditions postulated, an increase in the total demand for the commodity may either raise or lower its price, or leave it unchanged. The conclusion reached in the "Symposium" that the mere existence of market imperfection *may* account for falling supply price is therefore confirmed, but the suggestion that it is *likely* to lead to falling supply price is not supported by the formal argument. Some kinds of increase in demand will lower price, and some will not.

But less purely formal considerations must also be taken into account. We must inquire what type of change in demand will lower price and what types would raise it or leave it unaltered. A full discussion of this topic would lead us far afield, and I will here do no more than suggest an example of each type.

First consider a case in which price will be unchanged. This might occur if the increase of demand came about by the addition to the market of a new group of customers. As new firms are set up, these additional buyers, whose demand was temporarily satisfied by the old firms, may be supposed to forsake them for the new firms; the demand curves of the old firms would then fall back to their former position, and the new demand would be satisfied by the new firms. For example, suppose that the imperfection of the market is due to differential transport costs, and that the increase in demand comes entirely from a fringe of newly-established suburbs on the outskirts of a town. The inhabitants of the suburbs would at first buy from the various firms in the centre of the town, but as soon as firms were set up in their own districts, they would transfer their custom to the new firms. The elasticity of the individual demand curve would then be the same as before.

Next consider a case in which price is raised by the increase in demand. This would occur, whatever the nature of the initial rise in demand, if the new firms, when they enter the industry, attract away all the most fickle customers of the old firms, and leave only those who are more strongly attached to them. The individual demand curves would then become less elastic. There may have been, for instance, a fringe of customers attached to the market of each firm who were never provided for in the manner

which they would really have preferred (for instance, the location of the old firms may all have been equally inconvenient for them). They were indifferent between the old firms. But the increase in total demand has called into existence firms which exactly meet their various requirements. The indifferent fringe of the old markets now disappears, and the new firms are each provided with a group of buyers whose preference for their wares is strong. The elasticity of the individual demand curves is then less than before.

Lastly, consider a case in which the price falls. This would occur if the increase in demand were spread evenly over the whole market—for instance, by a uniform increase in the density of population—and if the new firms were set up, so to speak, in between the old firms (either geographically or in respect of special qualities which appeal in various degrees to different customers). The difference, from the point of view of buyers, between any one firm and the next would thus be reduced, the customers of each firm would become more indifferent, and the elasticity of demand would be increased.

There are some grounds for supposing that the last type of change in demand is the most frequent. It may therefore be considered probable that an increase in total demand will lower price rather than raise it. It is worth while to remark, however, that successive increases of demand of this type would ultimately remove market imperfection altogether, and establish the optimum size as the equilibrium size of the firms; but in considering the imperfection of the market as independent of the action of the firms, I have drawn a highly simplified picture of the conditions which prevail in the real world. In the real world, when a firm finds that the market is becoming uncomfortably perfect, it can resort to advertisement and other devices which attach particular customers more firmly to itself. If a number of firms all act in this way, the market is broken up again and the equilibrium size of the firms is reduced.

The assumptions on which this analysis has been made are extremely severe. If they are relaxed, the case in favour of the view that falling supply price will be a result of imperfect competition is considerably strengthened. The assumption that all firms are alike does not affect the argument, and was made merely for simplicity of exposition. By removing it, various complications are introduced, some of which will tell in favour of falling supply price and some of which will tell against it, and the result may be in either direction.

To remove the assumption that firms are always in individual equilibrium makes way for the influences, connected with the passage of time, which, according to Mr. Shove's analysis,[1] may lead to falling supply price. Into this field I shall not enter, but it is worth while to observe, in passing, that it is intimately connected with the problem of market imperfection, since the same factors which make the market imperfect, such as goodwill, may retard the rate at which an individual firm can grow. Thus market imperfection may also have a share in causing whatever types of falling supply price arise from the influence of time.

Finally, the removal of the assumption that there are no possibilities of lateral and vertical disintegration very greatly strengthens the case in favour of falling supply price. Even under perfect competition the disintegration of firms may occur. But under perfect competition we must assume that for each scale of the output of an industry the maximum profitable degree of specialisation is already obtained. When the market is imperfect, the process of disintegration of firms is very much impeded, and a degree of specialisation that would be profitable under perfect competition is not profitable when competition is imperfect. There is here, therefore, a reservoir of potential economies of large-scale industry; an increase in the total demand for the commodity, leading to changes in the individual demand curves, may have the effect of releasing these potential economies by making a degree of specialisation profitable which was not profitable before. In short, an increase in the total demand for the commodity, when the market is imperfect, is far more likely to lower the average cost curves of the firms than when the market is perfect.

It therefore appears, after all, to be highly probable that falling supply price is a result of imperfect competition.

JOAN ROBINSON

[1] "Symposium," p. 113.

HOW DO WE WANT ECONOMISTS TO BEHAVE?

THE following pages are devoted to a discussion of the views as to the functions of economists which Professor Lionel Robbins has recently set forth in his book, *The Nature and Significance of Economic Science.* That book has already been noticed in the ECONOMIC JOURNAL (Vol. XLII, pp. 424–7). But the issues it raises are so fundamental for the conduct of economics that a further examination of its main contentions is perhaps worth attempting. We cannot, of course, do justice to all that Professor Robbins has to say. Many of his subsidiary discussions are highly illuminating and important, and his book would be worth reading for them alone. It is not with these, but with his main thesis that we are here concerned.

1. The task Professor Robbins has set himself is twofold: to provide a definition of economics, and to discuss the range and validity of its conclusions and their relevance for social policy. Now it is not evident that the former of these tasks should come first. In studying any concept it may well be worth while to know what individuals and species are included under it before attempting to formulate the common attribute which unites them. But Professor Robbins has preferred the austerer method of first establishing a definition of economics, and then deducing from it the activities to which the name applies. Everything, therefore, turns upon the definition. If it is satisfactory it may be expected to lead to helpful conclusions as to the nature and significance of economics; if it is not it may taint the whole of the subsequent discussion with uncertainty and error.

2. For Professor Robbins the problem of economics is the problem of "economising." We assume a community, each member of which has various needs or desires. We further assume that owing to the inadequacy of their resources, "not all that men desire do they obtain." Their means are limited in comparison with their ends, and they must therefore choose between the ends. They must make up their minds what to retain and what to sacrifice. In order to do this some kind of pricing process is necessary. Values must be set upon the available resources so as to restrict their use to the purposes for which

they are most urgently needed. This process, in Professor Robbins' view, is the subject-matter of the economist. He studies "human behaviour as a relationship between ends and scarce means" (p. 15). He examines "the implications of the different ends we may choose" and "makes it possible to select a system of ends which are mutually consistent with one another" (p. 136). But he is not concerned with either the ends or the means *themselves*. His subject is neither ultimate values nor material resources, but scarcity.

3. This view of the subject-matter of economics—it is broadly the view of the Austrian school—leads to certain important conclusions. But before we examine them let us note the method by which it is arrived at. Professor Robbins gives his readers three definitions of economics to choose from: one which makes economics the study of the causes of material welfare (pp. 4–11); a second which identifies it with the investigation of the phenomena of an individualist exchange economy (pp. 16–20); and thirdly, the definition in terms of scarcity and the distribution of means among ends. Having shown that in certain respects the first two are unsatisfactory, he assumes without further ado that the third is correct, merely pausing to point out (pp. 21–22) that it avoids the errors of one of the other two. This not merely begs the question (to which we shall return) whether a precise definition of the subject-matter of economics is possible or necessary, but it makes no attempt to justify the definition advocated *in its own right*. We can admit unhesitatingly both that the problem of scarcity (or value) is one which lies at the very heart of the economist's work, and also that Professor Robbins' description of it as the problem of the distribution of scarce means among given ends has certain clear advantages over alternative formulations.[1] Is this a sufficient ground for accepting it as a final account of the subject-matter of economic studies?

4. In the first place, Professor Robbins shows that if economics is a study of the relationship between means and ends, it follows that it is indifferent as between the ends themselves. "There are no economic ends," he declares (p. 129). "There are only economical and uneconomical ways of achieving given ends. We cannot say that the pursuit of given ends is uneconomical because the ends are uneconomical; we can only say it is uneconomical if the ends are pursued with an unnecessary expenditure of means." On the face of it this is almost a contradiction in

[1] In particular it avoids the need of assuming a hedonistic psychology (pp. 83–86); and it brings out the relativity of economic quantities (pp. 45–63).

terms. If he admits—as he clearly does—that it is an *objection* to a given way of achieving a purpose that it is "uneconomical," then he is implying that "economy" is an end and that waste is bad. He is assuming that "rational," *i.e.* economical, choice is something worth striving for, and that this end is something with which the economist is directly concerned, and towards which he cannot be indifferent.[1] Moreover, it is an end the value of which is not universally esteemed. Some of us are prepared to go to almost infinite trouble to avoid being wasteful; others, on the contrary, regard such carefulness as petty and degrading. Some of us find rational choice for the most part easy, others difficult. Some governments are anxious to win the approval of economists for their policies, others do not seem to care. All these contrasts represent different estimates of the importance of "the economic end"—the elimination of waste.

Again, the problem of the incompatibility of different ends may involve problems with which economists have nothing to do. Professor Robbins accepts Mayer's distinction between questions of economics and of technology on the ground that in the latter "there is one end and a multiplicity of means," whereas in the former "both the ends and the means are multiple" (p. 35). But is it true that in technical problems there is never a multiplicity of ends? If I build a house for myself I have at least two ends in view—room and shelter for myself and my belongings, and warmth. To a certain extent these ends are conflicting; for the larger my house is the less easily can it be warmed—the less warm will it be with a given amount of fuel. Let us assume that my decision as to the size of the house is determined simply by the relative values to me of warmth and space. The only person who can help me is the person who can give details as to how much I shall sacrifice in heat for every additional cubic foot of room. Questions of this kind are technical and not economic. And yet they are questions of the extent to which different ends may be jointly achieved—of the disposal of spare resources.

Or let us take the example which Professor Robbins himself gives (p. 136 *n.*). He rightly observes that it is "objectively inconsistent" to arrange to be in two different places at the same time. But the problem of overcoming, as far as is possible,

[1] In the last paragraph of his book (p. 141) the doctrine that the significance of economics rests upon the assumption that rational choice is something which is desirable in itself is explicitly stated and proclaimed. The inconsistency of this with much of the earlier parts of the argument is as clear as it is regrettable. See also below, § 7.

this inconsistency is not one of economics but of the technique of rapid locomotion. To know whether we could be in Oxford for lunch and in Cambridge for tea we should apply not to an economist but to a motor engineer (or a specialist in railway time-tables).[1]

5. But these are largely matters of dialectical interest. Of far greater moment are the objections that may be brought against Professor Robbins' definition from the opposite point of view. He is really concerned not to expand but to contract the area of economic studies. He believes that in the past economists have been too ready to spend their time on subjects but remotely connected with their main theme. And he calls on them to give up these outlying territories and return to the analysis of the pricing process (pp. 3, 40 *n.*). Indeed a great part of his book is taken up with indicating topics with which the economist is not concerned. Economics, he urges, is not psychology, and the economist must not study the subjective basis of demand and supply schedules, or the reasons which lead people to choose between different ends as they do (pp. 83–86). Economics is not technology, and the economist must not study the organisation of industrial or agricultural production, except in so far as it is directly involved in phenomena of pricing and costing (pp. 31–37). Economics is not economic history, and the economist is not concerned with the development of economic or social institutions (pp. 37–40, 92–94). Finally, economics is not ethics, and the economist must confine himself to what is and not venture upon discussions of what ought to be (pp. 120–35). Thus he may not consider problems of welfare, of the pleasantness or unpleasantness of labour or the effects of changes in the distribution of income, except in so far as these things express themselves in altered demand and supply schedules. He is debarred as an economist from investigating the significance for the community of advertising, though he may presumably discuss its productivity to the advertiser. The whole question of the relationship between private and community interests, and of the possibility of establishing a greater harmony between them than at present exists, lies outside his sphere. The study of unemployment is to be admitted only so far as it can be treated in the

[1] Professor Robbins remarks on the above illustration: "It is this kind of inconsistency which *in the sphere of social policy* (my italics) scientific economists should make it possible to eliminate." The words italicised concede that economics is more concerned with some problems of scarcity than with others; and further that it is in some sense specially connected with politics. But this hint is not followed up.

language of the price system. Even discussions as to the nature and significance of economic science belong not to economics but—we may suppose—to logic or philosophy.

The list of prohibitions is formidable. Before we can take it seriously, we must ask what are the sanctions which enforce it. What has the would-be economist to fear from overstepping the limits laid down? We need not dwell upon a verbal danger which confronts him—that he may be refused the name of economist by Professor Robbins and his associates; for the weight that is to be attached to Professor Robbins' opinions must ultimately rest on the arguments which he can advance in support of them.[1] And in fact a careful perusal of his work suggests two such arguments.

6. First of all, he seems to say, it is improbable that time spent upon the outlying problems will lead to worth-while results, at any rate if treated in isolation. Economists, he urges, have been tending towards irrelevant over-specialisation—towards the "multiplication of activities having little or no connection with the solution of problems strictly germane to their subject" (p. 3). And he argues that until one understands the "central theoretical problems" one is apt to go off on false scents, and to attempt questions which cannot be solved by economics.

This argument, so far as it goes, is both true and important. We need not question the dangers of sectionalism in economics, as in all branches of thought or action. Nor need we doubt that much time is wasted by economic "sectionalists"—though it will hardly be asserted that waste of time is unknown among workers in the narrower field of the pricing process. But to admit this is no ground for proposing that *all* economists should devote themselves to the "central" problem: they are surely sufficiently numerous for some division of labour to be both possible and desirable, and not every economist has the intellectual equipment necessary for grappling with the subtleties of theoretical analysis in its more abstract forms. And if as a consequence of over-specialisation some economists do less valuable work than they might, then that may be a reason for

[1] Nevertheless it is important that this "authoritarian" sanction should be borne in mind. The fact that an influential body of economists defines economics in a particular way is likely *of itself* to lead people to conform to their point of view, even if on analysis reason may be found for rejecting it. This is indeed the main justification for attempting to define economics at all—or for quarrelling with the definitions given by other people.

We may note here that in this essay we are using the word "economist" to refer to any person who has some understanding of the technique of economic reasoning. This is not, of course, offered as an adequate definition.

calling them bad economists, but it is not a reason for saying that their subjects are not a part of economics.

7. The second of Professor Robbins' sanctions is perhaps more important. Only in the study of the distribution of scarce means among competing ends, he urges, can the economist hope to achieve reliable results. The system of generalisations which the analysis of this problem yields are all deductions from self-evident first principles, and can claim to represent a body of scientific truth. If the economist ventures outside this field he is passing from the certain to the speculative; he must rely on psychological or ethical theories which are in themselves far from unquestionable, but which as an economist he is not competent to criticise. And his results can no longer claim to be necessarily true. They are not *scientific.* Professor Robbins takes for granted that economics is a science, and deduces that its subject-matter must be confined to what is capable of yielding *a priori* certain results.[1]

To this, however, two replies may be made. First, it is not in the least a necessary part of the concept of a science that it should yield *a priori* certain results. The certainty of many of the best attested laws of physics is rather a matter of high inductive probability than of necessity.[2] Nor can the phenomena of life and evolution be effectively studied by *a priori* methods. Yet physics and biology are recognised as sciences not less than geometry or mechanics (p. 83). Why not also acknowledge an *a posteriori* economics? If by means of speculation, observation or experiment it is found possible to make generalities about economic phenomena which have a measure of inductive certainty, why should they not be added to the corpus of scientific knowledge?

Let us take Professor Robbins' own main example. He rejects all investigations into the significance for social welfare of a policy of reducing existing inequalities of incomes (pp. 58, 120–26). No conclusion, he holds, can be reached on such a question; for, first, welfare cannot be quantitatively expressed; and, secondly, it is not possible to equate the welfare or utility of different people. We cannot know how much in terms of real goods a poor man will gain or a rich man will lose by a trans-

[1] The point of view elaborated in this paragraph is nowhere explicitly stated by Professor Robbins. But it is implied throughout the latter part of his book. See in particular the first section of Chap. V (pp. 96–7) and still more the discussion (pp. 120–26).

[2] See, for example, the recent address of Dr. C. D. Ellis before Section A of the British Association (York, 1932).

ference of wealth between them; because this transference will of itself alter the prices of consumable commodities, increasing the scarcity of those demanded by the poor man, and decreasing the scarcity of those demanded by the rich man. And we cannot compare the satisfaction gained by the poor man from any increase in material wealth which he does in fact secure with the satisfaction lost by the rich man, unless we adopt the wholly arbitrary assumption that the two have equal capacities for deriving satisfaction from material wealth.

These are real difficulties, and it is important that they should not be forgotten. But are they such as to render the problem incapable of any solution whatever, or to remove it from the field of economics? The first one ought to be capable of yielding to the kind of analysis which is of the essence of economic technique. Professor Robbins points out (p. 58) that a policy of equalising money incomes would first of all express itself in a rise in the working-class cost of living. He could have gone on, had he chosen, to show the reactions of that upon production—the tendency of entrepreneurs to move away from the production of luxuries, and towards that of necessities or "comforts," as equilibrium reasserted itself. Admittedly any estimate of the resulting real increase in the standard of living of the poorer classes would be provisional. But that is no ground for denying that it is a fit subject for economic investigation. On the contrary, the translation into real terms of the effects of changes in the monetary distribution of income is a problem which only the economist can have any hope of solving. He should regard it as an obstacle to be overcome, not as a proof that the whole subject of income transference lies outside his sphere.

The second difficulty requires treatment of a different kind. It is true that there is no way of making quantitative comparisons between the satisfactions of one person and those of another. Indeed the whole conception of quantitative comparison between different personalities may be at bottom meaningless. Nevertheless (p. 124), we do make such comparisons in ordinary life. We should not hesitate to say that a gramophone would be a source of greater satisfaction to a music lover than to a man who is deaf. And if it happened that the music lover was poor, and could not afford a gramophone, whereas the deaf man possessed a gramophone because he liked its appearance as an article of furniture, then we should find no difficulty in concluding that to transfer it from the latter to the former would represent a net

increase (other things remaining the same) in welfare. The loss to the loser, we should hold, would be less than the gain to the gainer.

Now this result can be generalised. If we admit that in a particular case one person's satisfaction from the possession or use of an article would be greater than another's, then we admit the theoretical possibility of comparing satisfactions in general. And this carries with it the implication—again as a theoretical possibility—that the satisfactions of different people may be not merely greater or less than, but also *equal* to one another. We have, of course, no ground for hoping for quantitative accuracy. We can neither identify equality, nor measure inequality, in given examples. But we can make the general proposition that *if* satisfactions could be measured, then the redistribution of incomes so as to equalise the "marginal utility of money" throughout the community would maximise welfare. And if we further agree that there is in the present organisation of society no ground for supposing that poor men are *in general* less capable of enjoying a given amount of wealth than rich men, it will follow that a levelling up of incomes is *likely* to increase total satisfactions; though we may also argue that as riches give their possessors standards of comfort which can only be given up at the cost of considerable hardship, welfare is likely to be increased *more* if the elimination of inequalities of income is effected gradually than if it is introduced with revolutionary suddenness. In such conclusions the metaphysical doubt remains. We cannot *prove*, "as a matter of ascertainable fact" (p. 124), that we shall increase satisfactions by getting rid of gross inequalities of income, because satisfactions are not capable of quantitative measurement, and I cannot know how much enjoyment you derive from a symphony of Beethoven, nor you how much I derive from a pint of beer. But all social relations are shot through with ultimate uncertainties of this kind. And economics is a social study. It cannot really expect to keep itself for ever within the realm of deductive necessity.

There is indeed, in Professor Robbins' view, a still further objection to welfare investigations: they imply, he says, a value judgment—that welfare *ought* to be maximised—and economics is concerned with what is, and not with what ought to be (pp. 124 ff.; cf. pp. 132 ff.). This astonishing argument scarcely requires refutation. Discussions of what is and of what ought to be are often linked together in the closest and most intricate manner—as Professor Robbins has admirably illustrated in his

own book.[1] Moreover, as we have seen, he himself concedes in his last paragraph (p. 141) that the significance of economics depends upon an "ought" proposition—the proposition that one ought to choose rationally. For most people this precept will not appear more self-evident than that which enjoins the maximisation of welfare. And if analyses which are designed to assist rational choice are legitimate, so by the same token are analyses which are designed to assist the maximisation of welfare.

8. So far we have been concerned with the range of economic problems. We may turn now to the range of data which may be taken into consideration *within* any given problem. Professor Robbins in an important passage (pp. 115–19) discusses the distinction which has been drawn between the "endogenous" and "exogenous" factors in an economic situation. The former represent the forces which are necessarily involved in the working of the pricing process, the latter are the forces which affect the data on which the pricing process rests. Thus (p. 116) a fall in the foreign exchange value of a currency following upon an increase in its volume is an "endogenous" change. It is a simple consequence of the elementary principles of scarcity. But if the country goes off the gold standard, and the government thereupon increases the volume of money still further, that is something "exogenous"; it is a matter of policy, of a change in the *conditions* of the supply of money, rather than of the working of the laws of supply and demand. Now of these two kinds of change the former alone, Professor Robbins holds, is properly to be called economic, for it alone is capable of certain deductive elucidation. But for practical purposes, he points out, economists sometimes find it desirable to take into account "exogenous" factors also. In discussing Protection, for instance, they allow for the possibility that tariffs may lead to political corruption, or that free trade may weaken a country's powers of resistance in time of war. Such excursions into "exogenous" fields are legitimate so long as it is clearly recognised that they do not form part of economics proper, and that the economist cannot pronounce about them with the confidence which may reasonably be expected of him in his own sphere.

[1] The avowed purpose of the book is to show how economics ought to be studied by elaborating what it is. Compare also p. 23, "Economics is entirely neutral between ends," with p. 31, "Economics is in no way to be conceived" —ought not to be conceived—"as being concerned with ends as such."

Broadly speaking we may say that as a matter of history what ought to be must be rigidly distinguished from what is, but that in theoretical or formal studies they fuse together. But we cannot stop to elaborate this.

With much of this there is no cause for disagreement. The distinction between endogenous and exogenous changes is useful and illuminating. And it is, of course, all to the good that economists should know the precise degree of certainty which their results possess. And if this were really the substance of Professor Robbins' case,[1] no further discussion would be necessary. But it is to be feared that Professor Robbins has not fully recognised the implications of his admission that the economist may and ought to interest himself in "non-economic" matters. The connections between exogenous and endogenous factors are elaborate and extensive, and in many economic problems we cannot treat them separately—we need to know how they react upon one another. No study of a period of inflation, for example, can be adequate which does not explain the exogenous effects of endogenous changes; how a fall in the external value of the currency may lead speculators and *rentiers* to believe that it will fall still further, thereby bringing about a fall in their demand schedules as a result of which their beliefs are realised; or how a similarly caused speculative rise in internal prices may lead to a serious temporary shortage of currency, and so give the government an excuse for believing that it ought to inflate still further.

Moreover, we cannot assume that the two types of change are always easily distinguishable. On the contrary, in certain circumstances the question whether a given phenomenon is exogenously or endogenously caused—whether, for example, a stock exchange boom is the result of speculative mania, or of an increase in the supply of capital relative to the demand for it[2]—may itself constitute a problem of some difficulty. Surely, then, it follows that the distinction between endogenous and exogenous factors is one which falls *within* the sphere of economics, and that the economist not merely may but *must* concern himself with issues which lie outside the sphere of the pricing process in its strict sense.

A similar line of argument may be applied to the wider question of the relation between deduction and induction. Professor

[1] See p. 118 *n.*: "It is more accuracy in mode of statement, not over-austerity in speculative range for which I am pleading. . . . All that I am contending is (*sic*) the desirability of separating out the kind of generalisation which belongs to 'exogenous fields' from the kind which belongs to economics proper." It is difficult to reconcile this with Professor Robbins' earlier protests against the over-diversification of economists' activities (pp. 3, 40 *n.*), or with his emphatic rejection of the possibility of fruitful speculation on the subject of the equalisation of incomes (pp. 120–26).

[2] See an article by the present writer entitled "The Significance of the Stock Exchange Boom" in the *American Economic Review* for June 1932.

Robbins recognises the usefulness of the latter for various subsidiary purposes; but he points out that by themselves empirical investigations can do no more than yield historical results; to be really fruitful they require analytical interpretation (pp. 101–109). This is true, and indeed obvious. Few people will be found nowadays to subscribe to the doctrine which Professor Robbins cheerfully attributes to the American school of "Institutional" economists, that economics can dispense with deductive analysis.[1] But to show that deduction is an essential part of the economist's work is not to show that empirical studies are necessarily subordinate and "penumbral." In some problems they may play but little part; the task of collecting facts may be subordinate to, and come wholly before (or wholly after) analysis. But in others they are closely interwoven. A deductive argument will suggest a question of fact, the answer to which may require further deductive analysis, leading to still further inductive investigations, and so on. In cases of the latter type theory and empiry represent not different *fields* of research, but different *tools* of research. Deduction without induction is empty: induction without deduction is blind.

9. Nor will it do to answer (p. 118, l. 2) that the inclusion of these wider considerations—exogenous factors, and empirical studies—is legitimate for practical purposes only, and cannot be tolerated in the narrow field of pure theory. For the distinction between the theoretical and the applied is in economics at best a provisional one. This is, indeed, the essential difference between the social and the natural sciences. The physicist or biologist has his subject-matter given him by nature, and he can study it solely with a view to arriving at the truth, leaving the question of what practical utility may be derived from his results to specialists in the applied field—to electricians and engineers, to

[1] Professor Robbins' inability to be fair to the Institutionalists is much to be deplored. (See, for instance, his witticisms in ECONOMIC JOURNAL, Vol. XL, pp. 411–12). It may be admitted that some representatives of the school have occasionally made excessive claims for the self-sufficiency of quantitative studies. But the professions of economists are not always a safe guide to their practice—as Professor Robbins gladly recognises when it suits him (see pp. 25–6 and 84–5). And in fact the essential characteristic of Institutionalism is not the denial of the usefulness of analysis, but the belief that the most fruitful field for economic research, whether deductive or empirical, is to be found in the concrete problems of economic organisation rather than in the niceties of value theory. With this doctrine Professor Robbins may not agree. But if he had taken the trouble to understand it he might have been saved from the gross blunder of talking of Veblen and Hamilton (the only two Institutionalists whom he mentions by name, apart from Professor Wesley Mitchell) as though their work were purely inductive or quantitative.

doctors and stock-breeders. Economists, on the other hand, are faced continually with practical questions. Their theoretical work is important not so much because it yields truth as because it provides a technique whereby practical and social problems may be solved. Knowledge in economics is valuable as being "fruit-bearing" rather than "light-bringing" [1]—as assisting human well-being rather than as providing knowledge of ultimate reality.

This constitutes our second answer to Professor Robbins, when he holds over economists the threat of not being called scientists if they refuse to abide by his definition of economics. If by a science is meant the building up of a system of knowledge for its own sake, then economics is *not* a pure science. Its investigations are bound up with practice, and it is by its practical usefulness that it must be judged.

10. From this conclusion a series of important results follows. For we need no longer demand that the boundary line between economics and other fields of study should be capable of sharp demarcation. We have seen the result of Professor Robbins' attempt to provide such a demarcation; how it led him to exclude from the notice of economists, at least in their professional capacity, various topics which are important in themselves, and which only an economist can discuss with any real hope of reaching a successful outcome. Such are, outstandingly, all the many questions affecting the goal of economic policy—the desirability of equalising incomes or abolishing private property in the means of production, for example; the possibility of establishing greater harmony of interests than at present exists between entrepreneurs and the community as a whole, and the methods whereby this might be accomplished; the advantages and disadvantages of organising the economy on a communist or co-operative basis. If Professor Robbins has his way the economist will ignore these problems, except, perhaps (pp. 133–4) in so far as they stimulate his meditations upon the pricing process. But in that case who will give them the serious consideration which they deserve? Professional moralists will not; for their business, *pace* Professor Robbins, is not to discuss what ought to be in the economic sphere, but rather to study the conception of what ought to be in general, and the nature of ends as such. Psychologists will not; for they are concerned primarily with the laws of human nature and behaviour, and not, except incidentally, with the political and economic framework in which they manifest them-

[1] Cf. Keynes, *Scope and Method of Political Economy*, p. 183.

selves. Historians will not; for their interest is in the past, not in the future. If economists dare not, then these problems will be left to "practical" men; to demagogues and fanatics, with no interest in logical reasoning and no knowledge of economic technique. "The border-lands of economics," writes Professor Robbins (p. 83), "are the happy hunting-ground of the charlatan and the quack." It will be a pity if they are left in undisputed possession. And the right persons to oust them are economists, for economists alone have the equipment for cultivating these "ambiguous regions," and making a garden where now is a desert.

So, too, with the study of economic institutions. Economists need not fear that they are trespassing unwarrantably on the territory of historians if they interest themselves in the nature and evolution of the main features of current economic life—in the machine technique and the organisation of enterprise, in private and public property, in markets and marketing. These subjects are not in any exclusive sense historical. For on the one hand they require, and will repay, theoretical treatment; and on the other hand, if they are successfully carried through they may help us not merely to know the past, but also to understand the present and control the future. Professor Robbins' distinction (pp. 36–38, 92–94) between the "economist" who studies the principles, and the "economic historian" who studies the factual expressions, of the pricing process, is too neat. In order to give a complete explanation, however theoretical, of man's economic behaviour, we must see it in its institutional setting, no matter if that involves us in excursions into "history," past or contemporary.

Similarly, economists have no cause to disdain the help of psychology. Professor Robbins properly shows (pp. 83–86) that the economic theory of value does not depend on any particular psychological doctrine. But it does not follow that economics has nothing to learn from psychology. The status of the "economic man" is a case in point. Professor Robbins argues (pp. 87 ff.) that he is merely a pedagogical device—that it is convenient as a first approximation to talk as though people were actuated purely by pecuniary motives, but that the propositions enunciated remain true, in general, even when this assumption is removed. This is true; but it is not the whole truth. For, as J. N. Keynes pointed out,[1] the economic man need not be thought of as acting from selfish motives, but merely as attaining what-

[1] *Op. cit.*, p. 119; cf. Robbins, p. 30.

ever ends he ultimately desires with a minimum of effort and waste. And this conception is one which is very near to being a true picture of the way in which men do actually behave in certain departments of economic life.[1] Now psychology can perhaps throw some light on the question how far and under what circumstances men will in fact choose "rationally"; or, again, it may help economists to understand the range and significance of aberrations from the norm of rational conduct—of such "psychological monstrosities as misers and the like."[2] And in general we may say that as psychology is the study of human behaviour, the further it develops, the more light it may be expected to throw on *economic* behaviour.[3]

Indeed economists themselves can no more be isolated than can their subject. We are accustomed, in methodological discussions, to talk about "the economist"—the man who knows and studies economics, and economics only, and who has to apply to "the psychologist" for information about humanity, to the "economic historian" for the facts of economic life, to "the politician" (or "the moralist") for the ideals of society, and—presumably—to "the logician" for light on the fallacy of composition, and to "the arithmetician" for the sum of four and four. Let us not forget that "the economist" in this sense is more of an abstraction than ever the economic man was. In real life students of economics can only hope to learn from their colleagues in adjacent fields if they themselves know enough about these fields to understand what questions they may profitably put. And the peculiar contributions of individual economists have often been due in large part to the fact that they have come to economics with a special knowledge of other subjects—of history or law, politics or business, mathematics or logic.[4] Economics has not suffered from their many-sidedness.

This brings us to our last point. If economics is not, or not

[1] *E.g.* in the Stock Exchange; see Keynes, p. 120.

[2] The miser is the man who is so devoted to the "proximate end," the accumulation of money, that he forgets the ultimate purposes for which alone money is useful. Professor Robbins rightly says that he is as a rule of little economic importance (p. 30). But his psychological brother, the man who is so interested in the pursuit of wealth that he produces far more than he consumes and automatically saves the difference, is a person with whom students of the trade-cycle, for example, may have to reckon.

[3] For illustrations of the way in which psychology can help economics (and economists can contribute to psychology) see almost any book by Thorstein Veblen; and on the contents of this (necessarily over-condensed) paragraph cf. the earlier chapters of MacCurdy, *Mind and Money*, particularly pp. 11–26, and Wesley Mitchell in *The Trend of Economics* (ed. Tugwell), pp. 22–25.

[4] *E.g.* Adam Smith, Goschen, Edgeworth, Commons.

merely, a pure science, then we need not be unduly perturbed if we cannot give its subject-matter an accurate definition. As a working description the phrase "why we are as well off as we are"[1] will do as well as any, so long as it is understood not to exclude questions of how to make us better off. In any case it seems fairly clear that economic subjects are in general characterised on the material side by having to do with "the economy," *i.e.* with the organisation of the production and distribution of wealth, and on the formal side by being the sort of subjects that can best be dealt with by an "economist," *i.e.* with the aid of economic technique. Such subjects cannot be presumed to be capable of yielding a systematic body of knowledge, and it is probable that any definition, if pressed, will be found guilty both of excluding what ought to be brought in, and of including what ought to be left out. In the last resort we must say, imitating Jacques Loeb, that economics is that which interests the economist—and that the economist, if he is a good economist, is, potentially at least, interested in everything.

11. We are now in a position to sum up our differences with Professor Robbins. He started with the assumption, it would seem, that whatever economics was it was a science. A science being assumed to be the building up of a body of systematic and certain knowledge, it followed that the subject-matter of economics must be capable of yielding such a body of knowledge, and, further, that to give it a scientific definition was both possible and desirable. That definition having been established—in a somewhat arbitrary way, as we have seen—it was at once clear that all questions which could not be subsumed under it were incapable of yielding certain results, and thus were not "scientific." And so Professor Robbins was able to establish his *index expurgatorius*—his list of topics with which the economist, at any rate *qua* economist, may not deal. We have seen that several grounds may be advanced for rejecting this *index*: that problems may be capable of scientific treatment which yet cannot yield deductively certain results; that economists may do good and fruitful work in the proscribed areas; that it is arbitrary and confusing to exclude from economics by definition questions which in fact economists alone can answer. But when all is said and done, the crucial objection to Professor Robbins' doctrine is not the reasoning by which he reaches his conclusions, but the assumption from which he starts. Economists cannot remain in the secluded contemplation of pure truth. If they are to help

[1] Cf. Cannan, *Wealth*, p. 1, and in ECONOMIC JOURNAL, Sept. 1932, pp. 425-6.

the community to solve its problems, they must themselves be counsellors and advocates, perhaps also administrators and statesmen. For the adequate fulfilment of this task they may have to equip themselves with an elaborate analytical technique. But to believe that this technique is the essence of economics, or that because economists ought to reason scientifically, therefore they ought to do no more than reason scientifically, is to mistake the means for the end; it is to become that "psychological monstrosity," an intellectual miser—a man who desires an "infinite accumulation" of theoretical dodo-bones. Let us hope that economists in general will not forget that in the social studies the end of knowledge is action.

LINDLEY M. FRASER

The Queen's College, Oxford.

THE SITUATION IN INDIA—A REJOINDER

I RUBBED my eyes in considerable amazement when I read Mr. Birla's note on the general situation in India, especially his question, " Will India ever be able to pay off her total debt, or will she even be able to redeem her annual liabilities ? " and his own answer, " What we require is reduction of our foreign debts, reduction of our internal debts, more money for education, sanitation and other nationbuilding schemes." With the last part of the answer there will be general acceptance, but not with the first. I propose briefly to give the broad facts.

I

In the first place, Mr. Birla's major premise is incorrect, and this being so, his main argument falls to the ground. The estimate of India's foreign liabilities made by him is double what it ought to be, as was pointed out by Sir George Schuster at the annual meeting of the Federation of Indian Chambers of Commerce at Delhi in 1930, over which Mr. Birla presided. The correct figure is of the order of at most £500,000,000, and my estimate was quoted by the Finance Minister at that meeting with approval. Sir Robert Kindersley's estimates of British Overseas Investments published for 1929 in the *Bank of England Statistical Summary* for August 1932 gives the capital investment in Government and municipal loans as £224,000,000. The *Economist's* estimates of overseas investments in India in 1928–29 were £354,000,000, of which £219,000,000 were Government and municipal capital and £135,000,000 commercial and industrial. If, as is not unreasonable, we assume the same proportion in the case of Sir Robert Kindersley's estimates as in the case of those of the *Economist*, then Sir Robert's commercial and industrial capital would be £138,000,000 or a total of £362,000,000. At the very outside commercial and industrial capital could not exceed the amount of Government and municipal capital. If it reached this amount, then the total would be £448,000,000. This estimate does not include an allowance for private concerns for which no information is available.

Mr. Birla's estimates are wrong in various directions. He estimates " Investments in companies operating in India but

registered outside" at £200,000,000. The complete figure published in the *Joint-Stock Companies Blue Book* and in the *Statistical Abstract* is £101,000,000 for 1926–27, and includes railway and tramway capital of companies not belonging to Government. This figure is made up of railways and tramways £32·8 millions, tea companies £25·7 millions, mining companies £21·2 millions, jute mills £4·6 millions and planting companies other than tea £3·2 millions. The £101,000,000 exclude, of course, the capital of banks, insurance companies, shipping and other companies which do only a part of their business in India. Only a small fraction of the working capital of these companies is actually employed in India, and it would, therefore, be necessary to allow for a small percentage of this total capital (£466·8 millions). Again, it is an undoubted fact that Indians hold a large and increasing share both in external companies and in companies with rupee capital under non-Indian management. It is well known, for example, that the majority of shares in the jute mills which are almost entirely under such management are held by Indians. Mr. Birla is also wrong when he assumes £100,000,000 to be the holdings of investors abroad in companies registered in India. The total paid-up capital of these companies is £200,000,000 (*i.e.* Rs. 267 crores, a crore being 10,000,000 rupees). Investments in rupee securities held by people abroad are similarly put at the extraordinarily high figure of £150,000,000. The total of rupee loans, largely, of course, held in this country, is £281,000,000, *i.e.* Rs. 374 crores. To assume 53 per cent. of the total to be held outside India is, on the best possible authority, very far from true, as is Mr. Birla's omnibus figure of £140,000,000 for "other investments not comprised in the above." Mr. Birla's estimates as revised would be sterling debt and railway investments £372·16 millions; municipal and trust borrowings £10,000,000; investments in companies registered in India, an outside figure, £75,000,000; and investment in companies less railways included under the first item £68·4, or a total of £525·56 millions.

My own estimate, referred to above, for the same year as Mr. Birla, is between £450,000,000 and £500,000,000, made up of interest-bearing obligations of the Government of India in England £339·4 millions; the paid-up capital of joint-stock companies registered out of India but working in British India, £101·2 millions; municipal and port trust borrowings, £10,000,000; and a share of the total working capital of banks, insurance companies, etc., doing business elsewhere than in India, £30,000,000;—or a

total of £481,000,000. To this we may add an allowance for investments in private concerns for which no details are available. All things considered, it seems reasonable to fix the upward limit at £500,000,000. An estimate of the *Financial Times* published in 1930 was £583,000,000, but this contained some conjectural data. If we take the League of Nations "Balance of Payments" Report, we find the total payments on interest and dividends given as Rs. 34 crores for 1926–27. If it be assumed that $5\frac{1}{2}$ per cent. is the average rate of interest, the capital invested would be £465·7 millions. In short, Mr. Birla's figure of £1,000,000,000 is quite astronomical.

"The first thing to which I wish to draw pointed attention," says Mr. Birla, "is the fact that, unlike England, India is a debtor country." It is surely no sign of weakness for India to have foreign liabilities in the early stages of her economic development. India, with the assistance of capital imported from abroad, has become the possessor of great assets in the shape of railways, irrigation works, factories and other enterprises of which the value is much in excess of her liabilities. The possession of these assets has led to a great increase of national income. My latest figure—that for 1929—was Rs. 105 per capita (not Rs. 45, the figure given by Mr. Birla). The figure is, of course, low, and is only one-twelfth of the average per capita income in Great Britain and Northern Ireland for that year. Eighty per cent. of the Public Debt represents assets which themselves provide an income, and the net charge of the remaining 20 per cent., not represented by assets, is small—only £4·8 millions in 1929–30. It would certainly be wrong, so long as capital cannot be obtained in India itself, to refuse to have recourse to moderate loans abroad, and thus to hold up the country's development merely to avoid sterling borrowing. It is no weakness to have recourse to external loans, as the examples of the United States, the Dominions, and South America prove. In 1914 British capital in the United States, mainly, as in India, investments in railways, amounted to £760,000,000. The investments of British capital in South America are very large, the Argentine alone having imported British capital to the extent of £433,000,000. Japan, a shining example of economic progress to most countries, is a large borrower both in London and in New York. In extreme nationalist circles in India there is a good deal of misapprehension: it is thought that the country has to borrow at ruinous rates of interest for the sole advantage of England. Sir Robert Kindersley's estimates for 1929 referred to above show that the average rate

of interest for Government and Municipal loans—3·8 per cent.—was the lowest in the Dominions and Colonies, and no country in the world was able to borrow more cheaply. India, indeed, has a privileged position in the London money market. The City Editor of *The Times* summed up the reason for this by saying India's finances have been well managed, her overseas trade shows a regular excess of exports over imports, large annual appropriations are made for the reduction of debt and, unlike Britain's debt, the great bulk of the National Debt of India is represented by interest yielding assets.

II

I now turn to the balance of trade and the problem of the charges which have to be met annually in London, usually called the "Home charges." It is quite true that before the slipping off the gold standard in September 1931 the Government of India were finding the problem of remittance a very difficult one indeed, owing to the catastrophic fall in prices and the lack of confidence that prevailed. But these difficulties are, fortunately, not in any degree so great as they were. The balance of trade figures show on an average of the ten years ending March 31st, 1929, an excess of exports of merchandise over imports amounting to £66,000,000 per annum. Including treasure, the visible balance of trade amounted to £37,000,000. The excess of exports over imports of merchandise for the year ended March 31st, 1929, was £65,000,000 and the visible balance of trade, treasure included, was £39,000,000. Now the halving of Mr. Birla's estimate of foreign liabilities has, of course, affected the whole argument, and it will be seen that the balance of trade is quite able to meet the interest charges on these liabilities. The most characteristic feature of the present régime in Indian public finance is the control of the Government of India over its capital expenditure, combined with a severe policy of economy and retrenchment which is reflected in the 50 per cent. increase in the price of Government sterling securities in the last twelve months. Capital commitments have been kept well, and these capital imports have to a large extent been met in India itself. In the five years ending 1930, for example, £17,822,000 were net borrowings by India in sterling, but against this the railway capital expenditure in England, including purchases of railways, during the period amounted to £54,360,000. In short, the net amount of new sterling debt incurred was much less than the sterling capital expenditure on Indian railways, the bulk of which was financed

out of resources remitted from India. During these five years the surplus net revenue from the railways was £30,000,000, and the contributions made to general revenues £21,750,000, while at the same time the railway reserve fund was increased from £4,500,000 to £13,000,000.

The home charges for the year ended March 31st, 1929, are set out below to show the nature of expenditure in London :—

	£ millions.	Percentage of total.
1. Capital expenditure	10·8	27
2. Railways	9·0	22
3. Military services	9·9	24
4. Debt services	5·6	14
5. Pensions, etc.	2·4	6
6. Civil administration (High Commissioner. Leave salaries)	2·0	5
7. Others	0·8	2
Total	40·5	100

I do not think that there are many countries in the world with so satisfactory a showing. The interest of the capital originally imported is paid from the productive enterprises. The capital imported is not imported, as it has been since the War in the case of Germany and Australia, in unreasonably large quantities and invested in unproductive enterprises. It is invested in productive enterprises affecting beneficially Indian production and the national income. The Balance of Payments may be shown at a glance thus :

Balance of Payments.

(In crores (10,000,000 rupees).)
(Credit +, Debit —.)

	Average for 5 years ending 1927–28.	1928–29.	1929–30.	1930–31.
I. Current items (goods, services, and gold) :—				
Merchandise	+87	+66	+54	+37
Gold	−35	−21	−14	−13
Interest and Dividends	−31	−32	−32	−33
Other services	−36	−31	−18	−16
Total	−15	−18	−10	−25
II. Capital items :—				
Long-term	+ 9	—	+13	+43
Short-term	+ 6	+18	− 3	−18
Total	+15	+18	+10	+25

The large importation of the precious metals is another fact which indicates that the real resources of India are not so inadequate as Mr. Birla supposes. From 1900 up to 1930 the value of India's net imports of gold, as will be seen from the table below, were nearly £400,000,000, valued at the price of gold then existing (viz. £4 4*s.* 11½*d.* per fine oz.). To-day that gold is worth £540,000,000 at present prices (viz. £5 18*s.* 11*d.* per fine oz.).

Net imports of Gold and Silver (in £ million) for 30 *years* (1900–1 *to* 1929–30).

	Gold.	Silver.	Total.
1900–1 to 1909–10 (ten years total) .	68	99	167
1910–11 to 1919–20 (ten years total)	145	145	290
1920–21 to 1924–25 (five years total)	108	59	167
1925–26 . . .	26	13	39
1926–27 . . .	14	15	29
1927–28 . . .	14	10	14
1928–29 . . .	16	7	23
1929–30	10	7	17
1925–26 to 1929–30 (five years total)	80	52	132
Total	401	355	756

The net import of gold has been at the rate of 23 per cent. of the world's production in recent years (1920–21 to 1929–30). The export of non-monetary gold amounting to £63·8 millions since last year is also a sign of financial strength. The export has had a most beneficial effect on exchange, as it gives India a favourable trade balance, and makes it possible for her people to use their reserves in these difficult times. Much suffering is, therefore, avoided by drawing on these reserves in hard times. In the ECONOMIC JOURNAL of June 1927 I estimated India's gold hoards at a figure of not less than £550,000,000. At to-day's price of gold this would be £745,000,000 and the export of 63·8 millions is only about 9 per cent. of the total. Silver, too, since 1900 has been imported to the extent of £350,000,000 net. India was just up to the world depression importing gold at the rate of £15,000,000 per annum and silver at the rate of £7,500,000. It is quite absurd to think that a country which has such enormous hoards of gold and silver, and ordinarily is a sink for the precious metals imported from the rest of the world, is so weak (as Mr. Birla believes) as to be doubtful of meeting its foreign liabilities. There are, on the contrary, very solid grounds for optimism. If the savings of the people of India could be directed into productive enterprise, it is as clear as the noonday that India could provide

for her economic development without external capital, and the existing external capital could be repaid in a generation. Education more accessible and widespread, the development of banking habits through an all-India investment movement in the 500,000 villages in which nine-tenths of the population reside, and above all the stopping of social and quasi-religious customs which retard the proper production and distribution of wealth, are essential.

III

With a view to increasing agricultural production, Mr. Birla rightly raises the question of the indebtedness of the cultivator. "A second point," he says," worthy of consideration is the question of private debts." Naturally, Mr. Birla, belonging as he does to the great moneylending and banking community of Marwaris, looks at the problem from the viewpoint of agricultural finance. The moneylender in Indian rural economy is indispensable. He is accessible to the agriculturist, and maintains a close personal contact with him. He has local knowledge and experience. In recent years, however, owing to bad times, the legal protection given to the agricultural borrower by Acts such as the Usurious Loans Act, the Land Alienation Acts, and the Punjab Regulation of Accounts Act, the growth of co-operative societies and the suspicious practices of some members of the fraternity, he has lost ground. On the other hand, the agriculturist is conservative and wedded to religion and custom unknown perhaps in the West. He will incur debts for marriages and funerals, and he clings to the tradition of paying off ancestral debts. Nevertheless, the Central Banking Inquiry Committee reported that "We consider that it is incumbent on Government to devise measures to meet the situation." The Royal Commission on Agriculture uttered a serious note of warning when they said: "It must be clearly recognised that the worst policy towards debt is to ignore it and do nothing." The Banking Committee recommended in its Report that a scheme of debt conciliation on a voluntary basis should be considered by local Governments, and that the Governments concerned should also explore the possibility and desirability of undertaking other legislation to secure the settlement of debts on a compulsory basis. The problem bristles with difficulties. The Royal Commission on Agriculture, 1928, believed that the greatest hope for the salvation of the rural masses in regard to debt lay in the growth and spread of a healthy and well-organised co-operative movement; that legislative measures dealing with

the problem of indebtedness had proved a comparative failure, and in all provinces an inquiry should be set on foot in regard to the failure to utilise the Usurious Loans Act which, if used, would go far to remove the worst evils of uncontrolled usury. They recommended to the consideration of local governments the British Moneylenders Act of 1927, the Punjab Legislation and the case for a simple Rural Insolvency Act. The Commission were of opinion that conciliation bodies might be tried in certain areas, and, where the indebtedness is very heavy and there is a difficulty in getting suitable persons to act as receivers," there should be little hesitation in appointing officials for this duty." The plain fact is that tradition makes the son or relative regard ancestral debts as debts of honour, piously to be paid. It is a common practice for a moneylender who has no remedy at law to approach the son or relative and on grounds of religious duty to get him to execute a promissory note. The son or relative will do nothing which might make him run the risk of being thought to dishonour his father or relative.

This brings me to the real heart of the problem of increased agricultural production. At every turn we are met with difficulties of a religious and social nature. Take, for example, the Hindu's veneration for the cow, which has had such startling economic results. The difficulty is to get the cow back from the temple to the field. "Call it prejudice, call it passion," said a Hindu, "call it the height of religion, but this is an undoubted fact that in the Hindu mind nothing is so deep-rooted as the sanctity of the cow." The annual economic loss caused by some 25,000,000 superfluous cattle amounted, according to an estimate placed before the Bangalore Conference of the Indian Board of Agriculture, to £117,000,000, or more than four times the land tax of British India. The use of certain fertilisers, such as bone manure, is forbidden, and cowdung is used as fuel. In some parts of India to-day economic necessity is compelling the Hindu to change, and in some districts the barren cow when unfit for work is sold to the butcher. "The agent of the butcher," says a report, "is always at hand to help in the work of removal. Life without vitality or capacity of work has lost all significance of sanctity for the farmer, be he Brahmin or low-caste Hindu." Mr. Darling mentions that a generation ago there was hardly a Hindu who did not set aside part of his meal for his cow, but now there is hardly one in a hundred who does so. The Sikh, forbidden by his religion to smoke—very beneficially from the economic standpoint, as he saves on an average holding enough to pay his land tax—is

yielding to economic pressure and growing tobacco. He is also in parts of the Punjab practising birth-control, "because more sons will have no land to cultivate," and "too much rain reduces the crop; too many sons bring reproach." Another, according to Mr. Darling, declared that every son comes into the world with a share written on his forehead. The Muslim, too, who has for centuries been terribly handicapped by the Koran, which makes it necessary for him to pray five times a day, fast in Ramzan, not to take "Riba" ("interest," according to others "usury"), and to give away $2\frac{1}{2}$ per cent. of his property, is finding these injunctions in the face of the higher standard of living too difficult to carry out. The Mohammedan in some parts of India is beginning to take interest like an ordinary moneylender. The Khojas, converts from Hinduism to Islam, are said to be more exacting than the Hindu moneylender. "The temptation, therefore," says the author of "The Punjab Peasant," "is irresistible and ethical principle is obliged to give way to economic advantage." On the other hand, there are still great forces of orthodoxy at work in India which make the life of the agriculturist often "solitary, poor, nasty, brutish, and short." The Hindu, whose mind is religious and speculative, is a firm believer in tradition, and material progress does not mean to him what it does to the Westerner. He is wedded to every ancient custom to a degree almost incomprehensible to the Western mind. Mr. Gandhi's recent efforts to bring 26 per cent. of the total Hindu population into the Hindu fold, and thus to permit the lowest castes, numbering 62,000,000, or about the population of Germany to-day, to have similar rights as caste Hindus, has met with opposition from orthodox Hindus in regard to wells or tanks used by higher castes, and temples and schools where caste children go. Nothing but education which is widespread and accessible and a change of social and religious customs will bring about the desired result, and Mr. Birla, as a Hindu of an unusually orthodox caste, fully appreciates the importance of these factors. As David Hume said long ago, with more truth than was realised at the time, "Popular theology has a positive appetite for absurdity." In Hinduism economics and religion are, indeed, fused into one, with the result that the production, and indeed the distribution of wealth, are far from ideal.

IV

The third and last point discussed by Mr. Birla must be, owing to exigencies of space, briefly answered. Mr. Birla believes

that there is budget disequilibrium, that there should be "retrenchment drastic and ruthless," but this, he believes, "cannot have an altogether unmixed effect. What is really required is judicious spending." As a strong nationalist, he returns to his old hobby, and condemns the present level of military expenditure. He thinks that it is impossible to raise money at the present time in India. The Budget of the Government of India for 1932–33 shows a revenue of Rs. 129·96 crores (£98,000,000) and an expenditure of Rs. 127·81 crores (£96,000,000). The Budget has been balanced with draconian severity and without recourse to any trick devices. The figures just quoted do not show the real picture in regard to the reduction in administrative expenditure. As the work of retrenchment began two years ago, we must take the actuals of 1930–31. Civil expenditure was Rs. 24·93 crores (£18·7 millions) and in the present year Rs. 20·65 crores (£15·5 millions). Military expenditure was Rs. 54·30 crores (£41·6 millions) and in the present year Rs. 46·74 crores (£35·1 millions). There has been since 1931 a reduction in the net controllable administrative expenditure, civil and military, from Rs. 76 crores (£57,000,000) to Rs. 64 crores (£48,000,000), a reduction of the order of 16 per cent. The Army's contribution in the national emergency is striking, especially as compared with the high-water mark of 1919–20, Rs. 91 crores (£68,000,000). Public expenditure of the Government of India in the present year is actually 11 per cent. less than in the first year of the Reforms, 1921–22. As a result of the retrenchment campaign, the Finance Minister informed the Legislative Assembly that, unfortunately, no fewer than 7063 appointments in the Civil Departments have been, or shortly would come, under reduction—viz. 299 Gazetted Officers, 5279 ministerial establishment and other superior establishments, and 1485 inferior establishment. The Indian Government believes, with Tacitus, that thrift is a great untapped revenue. It believes that the cart of taxation must never be put before the horse of economy and retrenchment. The budgets of Local Governments amount, all combined, only to Rs. 94 crores (£71,000,000), as compared with the Government of India Budget of Rs. 135 crores (£102,000,000), and here again, in spite of the fact that Local Governments are responsible for education, sanitation and other nation-building departments, Madras and the Punjab since the first year of the Reforms have had an average surplus of Rs. 46 lakhs and Rs. 9 lakhs respectively, while other provinces, especially the industrial provinces of Bombay and Bengal, owing largely to the Meston Settlement on the

allocation of revenues between the Central and Provincial Governments, have had to face difficulties, notably in the last two years. Relief is being achieved in two directions—in the first place, from economies in expenditure, and secondly, from the possibility of new taxation. I should stress this point, in view of Mr. Birla's reference to the importance of education, that since the Reforms of 1921–22 the expenditure on education has increased from Rs. 869 lakhs to no less than Rs. 1317 lakhs, an increase of 52 per cent., and education is now 14 per cent. of total provincial expenditure, as compared with 11 per cent. in 1921–22. In regard to Mr. Birla's view on the raising of internal loans in India at the moment, I think he is a croaking Cassandra. In addressing the Legislative Assembly on September 5, the Viceroy, Lord Willingdon, well summed the situation thus: "Since April we have floated three loans, one in sterling and two in rupees, of the total amount of 58 crores. The last of these, as you are aware, was over-subscribed in about four hours, though it gave a return of only 5¼ per cent. as compared with 6½ per cent. for the loan issued about this time last year. We have also been able to reduce our floating debt in the form of Treasury Bills from 84½ crores at the end of August 1931 to 24½ crores at the end of this August, and to reduce the price we pay for our accommodation from about 7½ per cent. to about 3½ per cent."

To sum up. I have shown that (1) India's liabilities abroad have been kept within limits strictly commensurate with her capacity to pay; (2) the expenditure from capital imported has been on productive works, mainly railways and irrigation, and India has thus avoided the difficulties that have faced Australia and Germany; (3) the Government of India budget is a balanced one. Budget equilibrium has been achieved, first by economy and ruthless retrenchment, and secondly by new taxation; and (4), as pointed out in my *Poverty and Kindred Economic Problems in India*,[1] the questions of increased agricultural production and diminished poverty are intimately bound up with religious and social questions, in regard to which education that is accessible and widespread will do much. With the emerging of a higher standard of living, especially in the irrigated areas, divinely appointed custom is giving way to something more dynamic—economic reality. It is no longer as God wills, but as man labours, and this is well summed up in the remark of a Punjab colonist, quoted by Mr. Darling in his *Punjab Peasant*: "Where the water is, there is God." Our political advance is fifty or a hundred

[1] Government of India, Central Publication Branch, Calcutta, 1932.

years beyond our social advance, and that makes the solution of the problem all the harder. It is being tackled, but progress must be slow. The India, however, which I met when I came out twenty-three years ago as a Professor of Economics is certainly not the same India to-day. The rate of economic and even social progress has been much accelerated. India's financial position is so intrinsically strong that she may well be the envy of most other countries. She must, however, continue to pursue a policy of gradualness and caution, because finance is a delicate piece of furniture, the cobwebs of which cannot be removed by a Turk's-head mop. Gordian knots, such as financial safeguards during the period of transition, cannot be cut. They have to be patiently unravelled. Every serious student of Indian Public Finance will agree with Sir George Schuster's remarks at the end of his Budget speech on March 7th last when he summed up the position thus:

"If we look round the world in the present times of difficulty we may fairly claim that there is no country in the world whose intrinsic financial position is sounder, or whose ultimate prospect of economic advance in the future is more bright."

G. FINDLAY SHIRRAS

Gujarat College,
Ahmedabad.

AUSTRALIAN BANKING POLICY IN THE CRISIS

More by accident than by design Australia has pursued a somewhat enlightened banking policy during the depression. It is estimated that the Australian banking system, as a whole, entered the crisis with about £45 m. of liquid assets abroad [1] and £50 m. of gold reserves in Australia. These funds were Australia's real reserve against bad times. In the first stages of the depression they were all too liberally used without any remedial measures being taken in Australia. For 1929–30 the balance of payments on income account (goods and interest payments) was unfavourable to the extent of approximately £70 m., and in 1930–31 to the extent of £18 m. One of the principal causes of the heavy unfavourable balance in 1929–30 was the ineffectiveness of the traditional banking methods of reducing imports. Imports were, in fact, £131 m. compared with approximately £145 m. per annum before the depression. Relying upon the normal method of rationing exchange and believing in the traditional identity of the Australian and British £'s, the banks, including the Commonwealth Bank, allowed their external liquid funds and their gold reserves to be used up too readily. Indeed, the banking legislation at the end of 1929, under which the Commonwealth Bank had power to take over the gold reserves of the private banks, was a hasty measure undertaken, without the application of the normal use of the exchange rate and high interest rates, to correct a rapidly unfavourable banking situation.[2]

As the depression deepened deposits in the banks began to fall, cash reserves to decline, and London funds to be absorbed. At June 30th, 1930, the London funds were estimated at £16·6 m., and on the corresponding date of 1931 at £14·3 m. Meanwhile, the gold reserves had fallen to £10 m. in the Commonwealth Bank and to £2 m. in the private banks. Hence, the total liquid funds available for cash payments abroad amounted to less than £30 m. compared with £95 m. before the depression. Though resisted by the majority of the banks, the exchange rate, under pressure of

[1] See Wilson, "The Australian Balance of Payments, 1928–29 to 1931–32," in the Supplement to the *Economic Record*, October 1932.

[2] For a fuller account of this and other early features of banking policy see my *What have the Banks Done? an Essay on Banking Policy* (Angus and Robertson).

heavy demand for London cover, had risen early in February 1931 to £130·5 (A.) for £100 stg. In the meantime, however, a fundamental change had been made in the balance of payments, thanks to the heavy reduction of imports and a substantial increase in the volume of exports. In 1931–32 exports of current production reached £78·3 m. and imports were only £44·1 m., leaving a favourable balance of trade of £34·2 m. The interest on governmental debt and the debt of local bodies, having been reduced by £5·5 m. on account of the war debt moratorium, amounted to £26 m., leaving a net favourable balance on income account of approximately £8 m. It will be observed that the external position was in precarious equilibrium, largely because the high export volume was obtained through good seasons. The volume of exports in 1931–32 was more than 25 per cent. higher than the average volume for the three years 1926–27 to 1928–29. Under the slightly improved favourable balance of payments the London funds of the banks increased to £30 m., which, together with gold reserves, gave a net balance of £40 m. on June 30th, 1932, available for cash payments abroad. This still leaves a very substantial margin before a satisfactory "drought reserve" will be built up in London. It is, however, somewhat of an achievement that the London position of the banks is being restored.

Of far greater importance, however, is the internal situation. The familiar problem of Government deficits has had a somewhat important influence upon banking policy. Perhaps more than any country in the world Australia has pursued a plan of financing Government deficits through the expansion of central bank credit. Short-term borrowing by governments has supplanted long-term borrowing, and though the loan programme has been cut down to £15 m. compared with £45 m. before the depression, the total borrowing per annum has, up to the present, abated but little. If it is good to maintain spending power during the depression, Australian policy in the past two years has not been without virtue. The result is that in a short period of three years a floating debt of £82·5 m. (at June 30th, 1930–32) has been built up. Of this £37·3 m. is owed in London and £45·2 m. in Australia. All but £4·25 m. of the London debt is owed to the Commonwealth Bank. As regards the internal floating debt practically the whole of it is in the hands of the Australian banks. The debt is in the form of Treasury bills bearing interest at 4 per cent. (since reduced to 3½ per cent.) and discountable at the Commonwealth Bank. According to the last banking returns, namely, for the quarter ending June 30th last, the trading banks

held at least £30 m. of Treasury bills. This would leave £15 m. of internal bills and over £30 m. of external bills in the hands of the Commonwealth Bank. Actually, the Commonwealth Bank's holdings of Government securities has increased from £34 m. in the third quarter of 1929 to £68 m. at present.

The effect of the creation of central bank credit in this way is familiar. The funds provided by the central bank, in this case the Commonwealth Bank, are drawn upon by the Government, and ultimately appear as banking deposits, mainly in the trading banks. Against these deposits the trading banks hold balances at the Commonwealth Bank. Hence, apart from the Treasury bills held directly by the trading banks, the issue of Treasury bills by the Commonwealth Bank has the effect of increasing both the cash reserves and the deposits of the trading banks. The effect of these movements upon the banking situation may be seen in the following table, which shows the changes in the cash position and in the deposits of the trading banks.

Cash Position and Deposits of the Trading Banks

Quarter.	Balances due by Commonwealth Bank to Trading Banks.	Coin and Bullion.	Australian Notes.	Total Cash.	Total Deposits.	Ratio of Cash to Deposits.
	£m.	£m.	£m.	£m.	£m.	%.
1929:						
Dec. .	8·4	21·3	13·0	42·8	277·6	15·4
1930:						
March .	13·5	14·6	14·4	42·5	274·7	15·5
June .	16·9	4·6	16·0	37·6	268·6	14·0
Sept. .	15·7	2·7	17·4	35·8	262·5	13·6
Dec. .	20·8	2·1	16·8	39·8	263·4	15·1
1931:						
March .	29·7	2·1	17·1	48·9	263·3	18·6
June .	32·2	2·0	18·9	53·1	259·9	20·4
Sept. .	23·0	2·0	20·3	45·3	255·8	17·7
Dec. .	22·2	2·1	18·6	43·0	268·5	16·0
1932:						
March .	32·1	2·2	18·9	53·2	282·3	18·8
June .	29·1	2·0	18·7	49·8	273·0	18·2

Three outstanding features of this table demand brief mention. In the first place there is the remarkable change in the cash holdings of the trading banks. Their notes have increased slightly, but in place of gold they now hold balances at the Commonwealth Bank as their principal form of cash reserve. In the second place the decline in the cash of the trading banks was arrested towards the end of 1930, and coincides with the expansion of central bank credit for governmental purposes. Further, the cash

ratio which touched a new low record for Australia also responded, leaving the banks in a much stronger position. Finally, the fall in deposits was arrested in the third quarter of 1931. This also is associated with the increase in central bank credit, but there would naturally be some delay in its effects upon bank deposits. Moreover, the export of gold and the adverse balance of payments would show more rapidly in the cash position of the banks than in deposits. In general it may be said that a very unfavourable banking position had developed at the end of 1930, and it has now been effectively remedied.

The increase in deposits and the fall in advances, other than Government securities, have reacted unfavourably upon the profit-earning capacity of the banks. Fixed deposits rose from £178·8 m. in June 1929 to £191·4 m. in June 1932. Meanwhile, current deposits fell from £107·7 m. to £87·0 m. Banks found the flow of fixed deposits an embarrassment, and substantial reductions in interest rates have been made in recent months. From 4½ per cent. in the middle of 1931 the three months' deposit rate has been reduced to 2½ per cent., while the two-year rate has fallen from 5¼ per cent. to 3½ per cent., and there have been corresponding movements in short-term interest rates on the money market. The percentage of advances to deposits had risen to 103 per cent. in the fourth quarter of 1929 and was maintained at about this level throughout 1930. It is now 96·4 per cent., and would be very much lower were it not for the advances made to Governments. Though bankers complain that these advances impose a strain upon the banking system, they are, in fact, profitable investments at the moment, and their net effect up to the present has been to increase the supply of banking funds available to cash and deposits, and to give the banks a profitable investment during a period of adversity. The ultimate security of these advances to Governments will, of course, depend upon the balancing of budgets. So far progress in this direction has been satisfactory, though the continued fall in export prices has cut deeply into the national income and Government revenue, and made deficits greater than were anticipated. In May 1931, when the Premiers' Plan was devised, the deficits were estimated to be £41 m. For the current year the estimate is £9 m., of which over £4 m. is on account of New South Wales. Against this £9 m. there are sinking fund payments of over £6 m. With balanced budgets the floating debt would be no embarrassment to banking institutions. On the contrary, it would provide a volume of liquid securities that should render the money market more efficient.

There is, however, one real danger in the position. The floating debt has added to the money value of the national debt, but owing to the maintenance of spending power and the operation of the exchange rate the price level has been sustained. Consequently, the real burden of the internal debt has not been increased. On the contrary, it may very well have fallen, because the money value of the national income is much greater at the higher price level. With 1928 as an average the Australian wholesale price level was 78 in June last. During the preceding eighteen months it fluctuated around 79. On the same basis the Board of Trade index for the United Kingdom for June last was 70, and the Bureau of Labour index for the United States 66. Despite a tremendous fall in the gold value of export prices Australia can claim to have maintained a relatively stable internal wholesale price level. Retail prices compared with 1928 are at about the same level to-day as wholesale prices. If a policy of deflation is now pursued—and many bankers believe wholeheartedly in such a policy—this interesting experiment in banking control during the crisis will probably come to a sad end. The burden of the internal debt will be increased and the task of balancing budgets rendered much more severe. Consequently, the Government securities upon which the whole banking and credit structure now rests will prove to be an unsound basis. Increased credit will be required in order to balance budgets, and the country might then be driven back to its old price level. In the meantime, however, the failure of the deflationary policy would have destroyed confidence in the control of the currency with consequent damage to the whole credit structure. The currency at present is under the complete control of the Commonwealth Bank, inasmuch as recent amendments to the Bank Act deleted any provisions for convertibility of the note issue, and left the Bank to manage the currency with the single obligation to maintain a reserve against notes of 15 per cent. rising to 25 per cent. in five years. This reserve is to consist of gold in Australia or in London or sterling assets. The Bank has not shown that it appreciates the strength of the case against a deflationary policy, and perhaps does not realise the enormous powers it now possesses for guiding Australia along the present course of credit creation to avoid unnecessary deflation.

D. B. COPLAND

University of Melbourne,
October 6th, 1932.

THE CONVERSION OF AGRICULTURAL DEBTS IN ROUMANIA[1]

In many countries it has become an absolute impossibility for the farmers to meet their obligations, either in the form of interest on debts or in the form of taxation. It has been estimated[2] that debts contracted in 1925 required for their discharge 70 per cent. more commodities than at the time of contraction. But this is only an average. A farmer who borrowed sufficiently in 1925 to produce a sack of wheat, would have to sell in 1932 three sacks of wheat to repay the debt. The situation, therefore, had become intolerable, and a general demand for some action became louder and louder. But if the demand was general, there was no agreement—and there still is no such agreement—as to just what should be done in order to meet the situation.

Two schools of thought are apparent in dealing with the problem. In order to make the existence of the farmer possible, there seem to be but two solutions: either the burden of charges, as expressed in currency, must be reduced, or the price of commodities must be raised. All the agitation that has been going on in the United States for "cheaper money" really amounts to the second line of thought expressed in an increase of the price of commodities in dollars (even at the risk of depreciating currency by inflation). But it is not yet certain that this method of raising prices, whether by propaganda for cheaper money, by way of extension of credit facilities or by currency manipulation, will have the desired results.

Roumania, on the other hand, has attempted a different solution. Recognising the impotence of the Government to influence either the world prices or domestic prices, and unwilling to sacrifice its currency, it chose the only other alternative, to reduce to a bearable level the actual burden, as expressed in the amount of commodities to be given up by the agricultural producers in order to meet their obligations, by making an attempt to decrease the monetary charges borne by the farmers. The

[1] The author is indebted to the *Independence Roumaine*, of Bucharest, for its valuable assistance.

[2] By *The Times*, London, editorial of May 13, 1932.

results accruing from this policy will presently be seen. But it might be useful to point out that the difficulties faced by the Roumanian farmers are practically the same as those which farmers all over the world have to face, and that any solution of their predicament might prove an invaluable precedent for other countries—or a scarcely less valuable example of what should be avoided.

In order to appreciate the significance of the problem for Roumania, it must be realised that 85 per cent. of its population of over 18,000,000 live from agriculture, and that about 80 per cent. of its territory of 294,967 square kilometres is occupied for this purpose.[1] An agricultural crisis, therefore, spells a crisis for practically the whole population, and the inability of the peasants to pay their taxes throws the financial organisation of the State out of joint. The report of Mr. Charles Rist,[2] delegated by the French Government, at the request of Roumania, to examine the financial situation of that country, states that during 1931 the Government failed to collect at least 800 million lei[3] in indirect taxes, 600 million lei in stamp duties and over 3,000 million lei in direct taxes; to this must be added a failure to collect over 1,800 million lei during the previous year.

Persons familiar with the situation in Roumania may of course state that its finances have been sadly mismanaged, and the above-mentioned official report will certainly corroborate their statement, but a mere glance at the index of agricultural prices in Roumania in 1929 and 1931, which is to be found in the same document, will not fail to reveal that, however defective the system of collection may be, the difficulties of the peasants were none the less enormous. From 1929 to 1931, prices of the principal products of agriculture fell as follows:

Average Price of Kilogram in Lei.

	Wheat.	Barley.	Oats.	Maize.
1929 . . .	7·50	4·75	4·54	5·91
1931 . . .	1·97	2·10	2·45	1·77

Thus, in order to pay his fixed charges, the Roumanian farmer had to sell, in 1931, 3·8 times, or almost four times as much wheat as he did in 1929 for the same purpose. Small wonder that the farmers were faced with swift and utter ruin. This becomes particularly apparent when it is realised that interest demanded

[1] *Europe du Sud-Est*, Paris, August 1931.
[2] Obtainable from the Bank of France; published in May, 1932.
[3] 587½ to the pound on September 17, 1932.

in that country on agricultural loans is exorbitant, and varies from 24 to 50 per cent. In such conditions the unpaid interest accumulates rapidly, and the farmer is in a short time faced with the loss of his land. It was in order to give him a new lease of life that the Government decreed the conversion of agricultural debts.

Seeing itself thus obliged to take action in some way, and knowing the impossibility of raising prices otherwise than by having recourse to inflation, the Roumanian Parliament took the only other alternative, and on April 16, 1932, voted the conversion of agricultural debts. The principal stipulations of the law are as follows :

Art. 1.—In order to offer assistance to holders of rural property and land destined for agricultural uses, wherever they may be located, which are burdened with debts, it is declared that these debts towards any creditor, bank or government institution may be converted.

Art. 2.—The debts of farmers owning 10 hectares or less are reduced by 50 per cent. and converted, as from the date of publication of the present law, into an obligation repayable in 30 years and bearing an annual interest of 4 per cent.

The above period is compulsory for the creditor and optional for the debtor who can meet his debt at an earlier date either in whole or in part.

Art. 9.—. . . accumulated interest will be reduced in the following proportions :

10 per cent.	for debts	contracted	in	1931	
20	,,	,,	,,	1930	
30	,,	,,	,,	1929	
40	,,	,,	,,	1928	
50	,,	,,	,,	1927	and previous years.

Art. 36.—No bank or other credit institution with a capital not exceeding 10,000,000 lei can be declared bankrupt for the next three years if it is able to prove that at least 25 per cent. of its assets are composed of converted agricultural debts.

Art. 37.—Popular banks can issue through the Caisse d'Amortissement or the Central Co-operative Peasant Bank mortgage bonds to bearer for the value of 50 per cent. of the legal valuation of mortgages resulting from a judiciary re-valuation of their assets.

At a meeting on August 27, 1932, the Roumanian Cabinet decided to demand from Parliament the following additions to the above law :

1. Debtors desirous of profiting by the provisions of the law will have to prove that agriculture is their principal occupation and that at least 60 per cent. of their income is derived therefrom.
2. They will be required to prove that the money borrowed by them was used for agricultural purposes.
3. They will be required to prove that they have not previously profited by similar agreements.
4. Debtors who are also members of credit institutions will have to prove that they have not made use of their position to obtain credits.
5. Persons owing more than 2,000,000 lei will not benefit by the stipulations of the law; for the above amount they will have to show holdings of at least 100 hectares; in case of smaller holdings their debts will only be converted at the rate of 20,000 lei per hectare.

Thus it is seen that, in an attempt to restore the balance between the prices of agricultural products and the fixed charges borne by the farmers, the Government arbitrarily wiped out 50 per cent. of the debt of the latter and converted the remaining half into an obligation maturing in 30 years and bearing interest at the rate of 4 per cent. *per annum* instead of the high rates previously charged.

Considered from the purely theoretical point of view, the solution does not at first seem unfair. The farmers are now protected from usury, they are supposed to be capable of making such payments as fall due, and the creditors are able to purchase with the money received as many commodities as they expected to purchase when granting the loan. An entirely ethical solution, indeed, which other countries would do well to adopt. In practice, however, things do not seem to work out quite so satisfactorily.

The main reason for the failure of the Roumanian scheme to work out with reasonable success may be found in the fact that it is by its nature merely an empirical and entirely arbitrary solution of one particular aspect of the complex economic situation which the world has to face to-day. The very figure of 50 per cent. is arbitrary. In converting its agricultural debts, Roumania is not simply taking a step that is necessary for the preservation of the major part of its population from ruin under the

burden of charges, but it is actually tackling the whole problem of the fall in world prices, the control of which is entirely beyond its power. The fall in prices involves the problem of over-production throughout the world, and also various other aspects of valuation of goods in gold prices. There is a multitude of aspects of the problem of values which cannot even be indicated in such a short study, but which it is impossible to influence decisively by the action of one single country of the size and importance of Roumania—and probably they are beyond the control of any single country. Yet it is this complex situation that the Roumanians have sought to amend by legislation which is to alleviate the burden of one class of the population—that is to say, wipe out one of the results of the existing situation—without in any way endeavouring to tackle its causes or to prevent its recurrence.

That the measure in question lacks solid economic foundation and any constructive possibility was shown in practice by the immediate effect it had on the credit system. The first result of an arbitrary, though perhaps unavoidable, favouring of one class of debtors by legislation was the obvious demand of practically every other debtor in the country that the principle of conversion be applied to his own debts. The Anti-Usury League and the Syndicate of Owners of Mortgaged Property immediately started an agitation in favour of similar steps being taken with regard to urban debtors, and not only in connection with the owners of mortgaged property, but in respect of all debtors in general. This fact alone would be quite sufficient to evidence the unsoundness of the agricultural debt legislation, as it gives a very sound logical and legal foundation for such impossible demands.

Worse even, the conversion of agricultural debts is an attack on the very notion of contractual obligation, and therefore on credit. Who, indeed, will want to continue lending money if it is in the power of the Government to release a debtor from his obligations, at any time and to any extent it sees fit without in any way offering an equivalent compensation to the creditor? The only possible result of such legislation was a grave undermining of whatever confidence still remained in spite of depression. And by taking away confidence, the legislation dried up the source from which agriculture has to draw credit. Here the law entirely omits to make any provisions for future facilities, by the creation of a special institution for agricultural credit or some other similar measure, and remains a half-hearted action, devoid of any constructive element: it only protects the peasants from

expropriation to-day by the creditors, but it does nothing to provide for the needs of to-morrow.

In a memorandum addressed to the Minister of Finance, the Association of Roumanian Banks pointed out that in these conditions it is virtually impossible to conduct any credit operations or to operate banking institutions, as an important part of their assets is thereby destroyed and they are deprived of the possibility of making individual agreements with the debtors so as to collect the maximum possible amount from each; now even those debtors who would have been capable of meeting the greater part of their obligations are not bound to do so. These, in turn, if they have deposited their savings in the country banks, will have to face their loss, consequent on the failure of the credit institutions which will become inevitable with the impossibility of recuperating assets. Thus the law sacrifices not only the interests of the credit organisations, but also of those farmers who had managed to keep fairly prosperous and had placed their money with the banks, syndicates or co-operative societies—that is to say, the interests of the class which was far more useful economically than the hoarder or the spendthrift, both of whom are protected.

The law, of course, contains also a serious menace for the finances of the country and the stability of the lei—the very menace Roumania sought to avoid by not raising prices with the help of an increase of circulation, which would have led to inflation. Apart from the fact that no government could permit the destruction of the major part of the capital resources of the country and the wrecking of the banking system, it has definite obligations resulting from guarantees given to the Agricultural Mortgage Credit. Most of the country banks, moreover, rediscounted their credits with the National Bank, so that the whole banking system, including the central bank, is involved.[1] The State, in fact, has recognised the impossibility of having one party support the entire burden of the settlement, and has definitely undertaken to compensate a portion of the losses.[2] But it is now already clear that it will not be able to do so, with the budget in its present state, without having recourse to inflation and further disorganisation both of its finances and of the economic life of the country.[3] That this legislation is a menace to the currency was also stressed in an official protest to the Roumanian

[1] Rist Report, Paragraph 24.—Obtainable from the Bank of France.

[2] Total demands for conversion amount to 27,000 million lei.

[3] The Rist Report considers that the credit of Roumania will not at present permit the issue of a public loan either at home or abroad.

Government, shortly after the measure was passed by the diplomatic representatives of the countries particularly interested in Roumania and its welfare.

And yet, in spite of all the obvious difficulties, the law was passed on April 13, 1932, and later amendments did not alter its basic stipulations. Something had to be done to prevent the ruin of the greater part of Roumania's overwhelmingly rural population. There was also the political consideration of securing votes—a matter of some importance to all politicians; hence the popularity with them of a measure which undoubtedly satisfied the greatest number of voters.

But notwithstanding all this, it is impossible to dismiss the Roumanian attempt at a solution of one of the primary problems of depression as utterly unsuitable. Whatever its practical results may be, and even whether it will or will not ever be really thoroughly applied, is of immediate interest only to Roumanians and those dealing with that country. But the principle involved is of universal interest.

We may quite possibly see this principle of conversion of existing charges reappear in other countries, though it is to be hoped that it will be applied in a more reasonable form. Since 1925 there has been a continuous decrease of prices, and during the last two years it has taken the form of violent deflation. There has been no corresponding deflation of fixed charges. The balance has been destroyed, to the detriment of agricultural producers. In some way or other it will have to be re-established if they are not to be driven to defaulting, a process equally unsatisfactory to them and to their creditors. And if the world does not succeed in increasing prices and in maintaining them at a reasonable level, it will inevitably have to apply in some form the Roumanian principle of deflating fixed charges so as to safeguard to the greatest possible extent the legitimate interests both of the debtors and the creditors. Only then will the conditions be created for the existence of an equilibrium necessary for a general recovery.

W. A. SOLLOHUB

REVIEWS

An Economic History of Modern Britain: Free Trade and Steel, 1850–1886. By J. H. CLAPHAM. (Cambridge University Press. 1932. Pp. xiii + 554. 25*s.* net.)

THE first volume of Professor Clapham's mighty work has already reached its second edition, and will probably exert upon the rising generation of economic historians as enduring an influence as Marshall's *Principles* exerted upon the last generation of economists. The second volume preserves all the distinctive qualities of its predecessor, and may be even more useful to many students, because it covers a period which has hitherto been somewhat neglected by the general economic historian. Professor Clapham still pursues his austere purpose "to make the story more nearly quantitative"; lest the story should entirely vanish beneath the load of statistical bricks, he continues to quote "scattered individual facts from all up and down the country, and all over the economic field." Once more he adopts a topical rather than a chronological arrangement of his material; and he still tends to shy away from some social questions which other historians have found it necessary to discuss in their surveys of Victorian economic development.

Professor Clapham's opening chapter ("Britain and the Nations, 1848–1853") reads like a record of Britain's industrial, commercial and financial supremacy over her European and American competitors; but the "Industrial Revolution" was not yet fully triumphant. The United Kingdom was still "reasonably self-sufficient" in food supplies, and "agriculture was still by very far the greatest of her industries." During the third quarter of the century the swing from grain-growing to pasture farming was already beginning, "long before the great fall in grain prices." Rents were rising more rapidly in pastoral than in arable districts, and some consolidation of estates was taking place; but the statistical inquiries of the 'eighties show that the process of consolidation "had been going on far more slowly . . . than almost any of the general references would suggest." Analysis of the "principal occupation groups in Britain in 1851 in order of size" (p. 24) shows that the factory system was not yet the predominant form of industrial organisation; and a rough table

of "employers (making returns) and employed in certain trades in England and Wales, 1851" (p. 35) proves that the number of wage-earners employed by the typical firm was still surprisingly low, except in the cotton manufacture. Even in the cotton industry the company system did not take firm root until the 'seventies; and even then the "Oldham Limiteds" were portentous rather than representative. Except at Oldham, only "a relatively small number of dominant firms in dominant industrial groups" had adopted the principle of limited liability. Middlemen-employers, small masters, and "customer-workers" still survived in a wide range of industries; some of the new developments (*e.g.* sewing-machines, and domestic plumbing) actually tended to give fresh life to customer-work and household industry.

The technical supremacy of Great Britain did not extend over the whole field of manufacturing industry. America was taking the lead in the invention and introduction of machinery for wool-spinning, pin-making and screw-cutting, sewing and reaping. Superior taste, fashion and craftsmanship were bringing many French and Swiss articles into England, even before Peel's tariff reductions. So early as 1840 the states of the German Commercial Union had been reported to be ahead of Britain in the arts of design, metal-working (?), and "chemical knowledge in its various branches." In the third quarter of the century British manufacturers were already showing a regrettable conservatism in some directions; many new inventions (such as cotton ring-spinning, and the utilisation of waste gases in iron-smelting) were disregarded in England long after they had been profitably adopted in America and on the Continent. The growth of waste-product industries (*e.g.* shoddy, spun-silk, and coke by-products) was one of the most interesting results of the application of experimental science to industrial problems. In some of these industries Britain was enterprising and successful; but she could never hope to establish in them, or in such new commodities as rubber and cement, the supremacy which she had enjoyed in the older basic industries. In the 'eighties, Britain was still the industrial leader of the world; but her semi-monopolistic position as "the world's great quasi-rentier" could no longer be maintained. "The mechanical and industrial movement has become once for all international, and there is very little échelon in the advance."

In his treatment of the more human and more social aspects of industrialism Professor Clapham is apparently less interested, and sometimes less interesting. In particular, his account of the development of trade unionism (in Chapter IV) is somewhat laboured,

and superficially rather arid. His analysis of the economic activities of the state (Chapter X) might be described as uninspired, though he certainly establishes his thesis that "the state, purged and trained fine, better informed and better equipped, could supervise the carrying out of its decisions with a certainty which would have been nearly unthinkable two generations earlier." In spite of the increased efficiency of state action, Professor Clapham's description of "Life and Labour in Industrial Britain" (Chapter XI) shows that the sanitary condition of the great towns remained deplorable throughout the period; but he is not inclined, on that account, to belittle the Victorian achievement. "The cities of Britain were among the healthiest in the world, and were certainly the healthiest of the Old World. The death-rate of New York was worse than that of Manchester; those of Paris and Berlin worse than that of Liverpool." Foreign visitors in the 'eighties were amazed at "the complete revolution . . . in the lives of a large number of English workmen," and at "an improvement . . . beyond the boldest hopes of even those who, a generation ago, devoted all their energies to the work." Professor Clapham reminds us that even Karl Marx considered England to be "the only country where the inevitable social revolution might be effected entirely by peaceful and legal means."

The non-industrial chapters of the book are all solidly constructed, and authoritative in their mastery of both economic fact and economic theory; some of them are less interesting than others, but in all of them the close-locked analysis of statistical evidence is enlivened by notable and illuminating generalisations. Perhaps the most vivid chapter is that on "Money, Prices, Banking and Investment" (Chapter IX). Professor Clapham's comments on the financial crisis of 1857 (p. 371) might justly be given a wider significance in the interpretation of Victorian capitalism: "the trouble in Britain was due mainly, apart from fraud and crude incompetence, to the general reluctance to keep even small tanks of capital stagnant." No less interesting reflections on a more recent financial crisis may be induced by Professor Clapham's description (pp. 240–241) of the ordinary Englishman's scare about the balance of trade in the 'seventies, when the arithmetical excess of imports over exports was growing steadily more "adverse." Professor Clapham is clearly anxious to preserve his academic impartiality in discussing the relationship between commercial policy and the balance of international trade; but it is possible to detect some gusto in his quotation of John Stuart Mill's opinions on free trade ("The importation of foreign

commodities, in the common course of trade, never takes place except when it is, economically speaking, a national good. . . . It is ridiculous to found a general system of policy on so improbable a danger as that of being at war with all the nations of the world at once") or of Sombart's dictum on the mood of nationalism at war, convinced "dass alle internationalen Wirtschaftsbeziehungen ein notwendiges Übel sind, das wir so klein wie möglich machen sollen."

Such defects of detail as may be noted in Professor Clapham's work are mostly minor and casual, errors of omission, or points on which ambiguity may arise from the inadequacy of the reader's mental equipment. Misprints are fairly numerous, but they do not ordinarily cause obscurity. "Dunkinfield" (p. 101, l. 2) seems to hide the more familiar "Dukinfield"; and "Vict. c. 30 and 31, Vict. c. 131" (p. 137) is not a very clear description of the Companies Act of 1867. The general reader might assume from Professor Clapham's account of the Cotton Supply Association (p. 221) that the British cotton-growing movement began with the formation of the Association in 1857. In actual fact, the Manchester Chamber of Commerce had been encouraging the development of non-American sources of raw cotton since the earlier 'twenties; and even before that time the Lancashire manufacturing towns had been clamouring for Empire-grown cotton, to supplement the American supplies. A more puzzling case of ambiguity occurs in the reference (p. 337) to the beginning of a steady drain of gold to India. "It was a new thing, dating from about 1870. Formerly the East had been content to take and sterilise silver in jewellery and hoards. Now she was sterilising gold also." Doubtless there is a sense in which this was true; but the statement as it stands needs modification or explanation. In the later 'forties and earlier 'fifties India's average annual net imports of gold were about £1,124,000; her average annual net imports of silver were only about £1,890,000, although her coinage was silver.[1] It may, perhaps, be replied that these years were abnormal, on account of the increased production of gold in California and Australia. On the other hand, Tooke and Newmarch (to whose authority Professor Clapham pays a well-merited tribute on p. 366) describe the years 1846–7 to 1853–4 as "an ordinary period under present circumstances"; and Layton, after describing the gold movements of that period, adds that *after* 1856 "the flood of gold was diverted from Europe and

[1] See Tooke and Newmarch, *History of Prices*, Vol. VI, App. XXIII, esp. pp. 21–23, 732.

America to India and the East—the traditional sink and reservoir of the precious metals." [1]

That "British economic superiority was near its nineteenth-century culminating point in or about the decade 1870–80" (p. 116) is a main theme running through the whole of Professor Clapham's second volume; during that decade (he implies) there occurred "three culminating points in modern economic history—those of the age of steam; of the age of non-joint-stock industrial organisation; and of the age of undisputed British international supremacy in the old commerce and the new industry." But a new era was knocking at the doors; by the middle 'eighties everything was ready (p. 108) for "electrical industries and an electric age." May it be assumed that this last phrase forecasts a main theme of Professor Clapham's next volume, and that the preparation of the volume is already well advanced? His trilogy, as originally planned, was to bring the story down to 1914, with "at least an epilogue" dealing with the decade 1914–24. If such an epilogue had been available to students and statesmen in 1925, the recent history of this country might conceivably have been less calamitous.

ARTHUR REDFORD

The World's Economic Crisis and the Way of Escape. By SIR ARTHUR SALTER, K.C.B., SIR JOSIAH STAMP, K.B.E., J. MAYNARD KEYNES, M.A., SIR BASIL BLACKETT, K.C.B., HENRY CLAY, M.A., D.Sc., SIR W. H. BEVERIDGE, K.C.B. Halley Stewart Lecture, 1931. (George Allen and Unwin, Ltd. 4*s.* 6*d.*)

FOR the year 1931 the Halley Stewart Trustees decided to arrange six independent lectures to be given on the world economic crisis. It may well be questioned whether this was the wisest course to adopt. Probably any one of the lecturers selected could have made a more permanent contribution to thought on the subject if he had been in a position to deliver the whole series himself. On the other hand, such a series would have lost the ancillary interest which this possesses. Indeed this collection of lectures—it is rather a miscellany than a series—is more than interesting, it is exciting. The lecturers appear to have worked quite independently. Sir Arthur Salter in the opening lecture states that they had arranged a rough division of subject; but Mr. Henry Clay does not, in fact, deal with the question promised for him. To Sir William Beveridge fell the task of summarising

[1] W. T. Layton, *Introduction to the Study of Prices*, pp. 46–47.

what had been said and "finding harmony between our views where it exists." After the first two lectures the sympathetic reader begins to feel nervous; by the time the fifth was finished I found my own attention on first reading almost wholly diverted from the crisis to the problem :—how is Sir William going to get out of it? He gets out of it in fact with consummate skill and grace in one of the most brilliant lectures I remember reading.

The value of such a collection of lectures must necessarily be not in their scientific analysis, but in the illustration they afford of the type of fact that appears important to six persons with widely different experience and outlook and, in this case, of the means by which they envisage that a "way of escape" may be devised. The names of the authors are alone sufficient guarantee of the interest and importance of the book.

Mr. Clay is the only one to endeavour to give anything of the nature of an analytical thesis concerning the causes of the depression. The non-specialist would be well advised to begin with his lecture, which is a model of well-balanced and coherent reasoning. In addition, Sir William Beveridge, who has many other duties to perform, makes some extremely pertinent remarks concerning causes, and Sir Arthur Salter, who deals with the international aspects of the problem, explains with characteristic clarity certain of the factors that have contributed to our troubles. But Sir Arthur Salter does not attempt any general thesis. He expounds the character and working of each of the causes he mentions separately. Each of those he mentions has been important; many are still potent poisons and will remain potent in the future; but how exactly they were mixed in '29 or '30 we do not know; and indeed when we have added to them all that Sir William Beveridge and Mr. Clay offer we should still be unable to explain why the depression started when it did or why it has taken the form it has taken. This is perhaps inevitable, because nobody knows; but it is more than a little worrying, for, as Sir William Beveridge very rightly says, "in the special circumstances of the post-war world, any deflationary fall of prices would be more disturbing than a fall in times before the war, when the economic system was more fluctuating, when there were fewer rigidities of debts, wages, debenture interest, and the like." It is the danger that these rigidities will go on increasing before we understand enough about the causes of crises to prevent them that makes the study of causes—not this of depression but of the recurrence of periods of depression—so vital for the future.

But the reader will quite rightly attach most importance in

considering this book to the views expressed concerning the way of escape. There seems to be general agreement among the lecturers that the first step is to reduce reparations and war debts. These lectures, it should be remembered, were delivered before the last reparations conference at Lausanne. After this Sir Arthur Salter urges that gold prices should be brought back to the level at which they stood in 1929 and then maintained approximately stable, that tariff and commercial policies should be reformed, foreign lending revived, and the collective system of the Covenant of the League strengthened. From this programme as a list of objectives there is little dissent. The other lecturers are rather concerned with ways and means of attaining them, and with the risk of an even more serious breakdown than we have yet experienced before they are attained. The one remarkable dissentient note was struck by Sir Josiah Stamp, who wishes "to see some definite discouragement, some definite artificial check, to our vast volume of imports." The idea has got abroad—and I shared it the last time I tried to land in this country—that there has been a good deal of discouragement lately. But however this may be, what is really important is the fact that nearly all other countries are sharing Sir Josiah Stamp's concern about their "vast volume of imports." In consequence the equal and miserably meagre volume of exports is rapidly disappearing. But Sir Josiah Stamp puts forward this proposal as a short-term remedy to be enforced for eighteen months or two years or, what apparently is the same, until we get back to the price level of 1928–29. However essential a rise in prices may be, economists might with advantage speculate on the terrors of the next depression if prices rose from to-day's level to that of 1928–29 in eighteen months or two years. It is refreshing after this imaginary hustled history to find Mr. Keynes stating brutally that "there is now no possibility of reaching a normal level of production in the near future." His concern is to find a means of averting a far-reaching financial crisis. After tracing the course of events by which recovery might come through the natural play of economic forces, he concludes that in the absence of such recovery there will be no way of escape except by direct state intervention to promote and subsidise investment. His emphasis is thus on stimulating demand on discovering "some object which is admitted even by the dead-heads to be a legitimate excuse for largely increasing the expenditure of someone on something!" Mr. Clay rather surprisingly adopts Mr. Keynes's *pis aller* as his turnpike to recovery. There is one point, however, which seems to me to

be of special importance at the moment to which neither refers. Mr. Keynes argues that the balance of payments of the gold-absorbing countries must become less active or passive so that the gold coming forward from India and the mines will exceed their demand and will drift to England and elsewhere. This, together with low money rates, may enable and induce us to initiate a policy of capital expansion without government stimulus. But will low money rates alone suffice? One of the phenomena of this depression has been that in many countries the price of capital goods has not fallen in proportion to the price of consumption goods. May not government attention be more usefully devoted to ascertaining and endeavouring to counter the causes of this discrepancy than to reviving demand indirectly by investments, which, owing to the price of capital goods—and owing to the fact that they are undertaken by governments—may well prove "bad"? I do not wish to dogmatise on this point, but it is, I believe, one to which too little attention has been drawn.

In none of the lectures is government capital expenditure suggested as more than a temporary stimulus to demand. Thus Mr. Clay looks for recovery "rather to the diffused initiative of the more intelligent and enterprising traders, financiers and engineers engaged in industry in this and other countries," and Sir William Beveridge believes "with Mr. Keynes, that the toughness of the system will pull us through."

It is interesting that in all the discussion concerning the stimulation of demand so little should be said about direct monetary methods. No less interesting is it to find a director of the Bank of England stating that "stable money . . . is within our grasp to-day." To him not the capitalist system but individualism is dead and for all our ills his remedy is planning—and stable money he puts in the forefront of his planning programme. In spite of "to-day's grasp," I still remain uncertain whether Sir Basil Blackett is contemplating some distant future or pointing out the immediate way of escape. I hope the former, for, first, we do not want money to be stable to-day, we want prices to rise, and, secondly, this is a world depression, and before we get stable world prices there must be some approximation to a world-wide monetary system, and a knowledge of how to work it, if it can be worked in the face of cartelised individual prices, rigid wages and universal domestic trepidation over the vast volume of imports.

The emphasis of the book taken as a whole, granted (as all agree) that this is a world crisis, is somewhat curious. Of the six

lectures, two appear to be only indirectly concerned with the immediate situation. Unless I misunderstand them, Sir Josiah Stamp discusses not the depression of '30 or the crisis of '31 or '32, but the special difficulties of England before '29, and Sir Basil Blackett visualises not the way out of present difficulties but means for avoiding similar disasters in the future. Mr. Keynes is actual enough. But will public works in England alone avert disaster or restore world prosperity? Will they substantially affect world prices and lighten the burden of debt? Will they start a world trade revival? Sir Arthur Salter says briefly that commercial policies must be reformed; Sir William Beveridge that year by year tariff walls must slowly sink back into the ground. But it is not simply a question of tariffs or even of commercial policy. The root of the evil to-day lies in the endeavour of each country to protect itself individually against the repercussions of the crisis. Tariffs are perhaps the least and monetary policy—exchange control—the greatest part of the evil. Higher prices alone cannot restore trade while trade is prohibited; nor is confidence likely to be revived so long as imports are universally unpatriotic and exports universally prevented. I feel more sympathy than does Sir William Beveridge with Sir Basil Blackett's planning projects. But if we must plan in the future, let it be to do something. During the last two years every government has planned and all the plans have been carefully and most successfully designed to prevent anyone doing anything. Let us begin by unplanning.

Sir William Beveridge sums up the situation, with perhaps not undue pessimism, by saying: "The most that we can hope for this year—really it is too much to hope for this year—is that the governments will do something, not to cure the crisis, but to remove some of its aggravations—will deal with reparations and war debts, with some of the obstacles to trade, with one or two needless rigidities. We must plan to avoid another crisis later. We shall not by conscious effort escape this one." The removal of some of its aggravations must mean, if it is to have any serious effect, a widespread reversal not only of commercial but of monetary policy, a restoration of at least that measure of liberty that we enjoyed in '29. It should mean a deliberate attempt to create confidence by courage and leadership in many countries—courage to do away with special measures of self-defence. If such a policy could be accompanied by successful efforts to raise prices in one or two key countries—by whatever means—or by the removal of the impediments to industrial revival and higher

prices caused by the disequilibrium between the prices of capital and of consumption goods, we might look upon the future with greater equanimity.

A. LOVEDAY

The Course and Phases of the World Economic Depression. Published by the Secretariat of the League of Nations, Geneva, 1931. Pp. 339. 6s. Revised Edition.

THIS report, admirable and exhaustive, prepared by Professor Ohlin of Stockholm University, was first published in September 1931, and covered the period up to the early part of that year. The revised edition, issued the following month, brings the history up to the point when the pound was forced off the gold standard. "It falls outside the scope of this report to discuss the roads that might lead to recovery from the economic and financial crises," but in the final words it is pointed out that, while when countries are linked together by gold they must march together, "once any country has abandoned the monetary standard which links it to the majority of the community of nations, it can—for a time at any rate and subject to ultimate and strict limitations—enter upon a credit policy which may do much to mitigate the immediate severity of the depression in so far as it is itself concerned and in so doing act independently of its neighbours." After this one forward-looking word we may turn back to the description and analysis of the past.

Before the War the economic structure of the world was relatively self-adjusting to change, it was flexible enough to secure the requisite response by alterations in wages and prices. Signs of stress were, however, even then visible, especially through the partial control of prices and wages by cartels and trade unions, control of production in the social interest, and the burden of armaments. The War brought about a profound disequilibrium—immense destruction of capital, the expansion of industries serving war purposes and the contraction of others, the growth of new industries in many countries, the complete dislocation of international finance. The "replenishment boom" of 1919–20 accentuated these disturbances, and the general failure to bring about the necessary adjustments produced the collapse of 1920–21 from which the world only began to recover in 1923. From 1924 to 1929 there was a general increase in the output of manufactures, in world trade, and in incomes, but from the autumn of the latter year the course of trade changed and plunged into a deepening depression, and this Report seeks to determine what were the circumstances in the proceeding quinquennium which brought

about the catastrophe. The summing-up may be expressed in the opening words of Chapter VI :—" The essential characteristic of the present world economic depression is that a business-cycle recession occurred at a moment when structural changes and maladjustments had made the economic situation very unstable."

Even during the period of comparative prosperity the more effective maintenance of prices and wages by combinations and trade unions had made re-adjustment more difficult, especially in those industries which did not share in the general progress; such were coal, suffering from the competition of oil and lignite, railways, whose economic territory was invaded by motor transport, shipping with an inheritance of over-supply, and textiles, whose output was cut down by fashion changes. These were all sores which might cause a disease, but beyond them is the question whether there was over-production in specific industries relative to demand at a profitable price. Figures of wheat stocks " seem to indicate a certain tendency towards over-production, especially from 1927 or 1928." The greater use of machinery and fertilisers and the invention of new wheats reduced costs and extended the wheat-growing area in non-European countries, and the gradual return of Russia to export trade further increased potential supplies. On the other hand, with growing wealth the more important countries were eating less bread. Continental countries were protecting their farmers, and Asia was not coming forward quickly enough as a consumer. The efforts of the wheat pools in 1927–29 to maintain prices led to more wheat sowing and ended in an inevitable collapse of prices. " The individual farmer is unable, by a reduction of his output, to influence the prices at which he sells. Hence, contrary to the policy pursued by manufacturers, he naturally tries to meet falling prices by producing more rather than by producing less." His costs are incurred a year before he puts his produce on the market, and when prices are continually falling, his chances of profit swiftly disappear. In the end we have a situation when manufacturing countries can obtain their food cheaply, but agricultural countries cannot purchase the goods by which manufacturers live. With regard to raw materials, the fact that their " prices were on the whole declining in the years up to 1928 and relatively stable in 1928–29 before the depression does not prove any tendency towards over-production," for technical progress allowed " the earning of fair profits by the majority of producing units." In rubber there was clearly over-production, though not in cotton, wool, silk, artificial silk, or wood-pulp; but Russia was rapidly increasing

its export of timber and "it was clear that very substantial reductions of production in countries other than Russia would be necessary, even in the absence of any business depression, if prices were to be maintained on a profitable level." Coal, copper, lead, tin, nitrates, and some other raw materials showed tendencies, more or less strong, towards over-production, and in some monopolistic control of prices without limitation of output had led to increase of capacity. In manufacturing industry the demand for many new commodities "tended in several indirect ways to create maladjustments between demand and productive capacity for these and other goods, thus contributing to instability before trade had regained its normal balance." Surplus capacity on an unusual scale was found in many industries and was probably increased by rationalisation; this stimulated monopolistic tendencies to exploit home markets behind tariff walls and dump surplus products abroad.

Tariff barriers and reparations have disturbed international payments and caused a concentration of the flow of gold to France and the United States; unregulated lending (of which Mr. Montagu Norman has recently complained) erratically flooded and starved certain markets; the maintenance of a high long-term rate of interest stimulated short-term borrowing; the appearance of New York, and the expected appearance of Paris, as a monetary centre, without the experience and technique of London, confused the financial market. All these factors and many others made "the international financial position in the years before the depression much less stable than it was before the war." Such expansion of credit as took place in the United States after the influx of gold "was used at certain periods for purposes of speculation rather than to increase the demand for commodities," and, though the Report does not expressly say so, one is tempted to hold that it was this violent speculation, originating in a crude belief in the indefinite expansibility of American industry, that produced the final shock which brought down the unstable economic structure of the world.

The relations between consumption, savings, and investment have given rise to many theories relating to the causes of the present depression, but from the discussion in the Report we can only take a few disconnected quotations. After examination of the available data it is concluded "that, in the years before the depression, an increasing percentage of the national income was being used for real investment. This large investment may have been one of the factors which intensified the ensuing depression

during which investment has fallen off very rapidly." Inquiring whether the output of industry could be increased by lowering the present rigid prices and wages, it is pointed out that this depends on the maintenance of the total purchasing power used to buy finished consumers' goods and producers' equipment, and that a reduction in costs while acting as a stimulus to production "might well be offset by a strengthening of the tendency of the purchasing power to decline" through the reduction in working-class consumption and an increase in manufacturers' uninvested savings. "During a severe depression the volume of output is small, overhead costs are heavy, and average costs per unit of output are therefore relatively high. Even substantial cuts in the variable cost elements, such as wages and raw material prices, would in most industries fail to reduce average costs to the level existing when business conditions were good. Even if they did, production would nevertheless be unprofitable as long as prices of finished goods are seriously depressed, as at present." "The failure of the long-term rate of interest to decline substantially is one factor which has tended to reduce the volume of investment and to intensify and prolong the present depression"; in this country the recent War Loan Conversion has applied a corrective.

HENRY W. MACROSTY

Economic Tracts for the Times. By G. D. H. COLE. (Macmillan & Co. 12*s*. 6*d*. net.)

The Intelligent Man's Guide through World Chaos. By G. D. H. COLE. (Gollancz. 5*s*. net.)

THE studies which comprise the earlier of these volumes are, in effect, though not perhaps in design, both introductory and supplementary to the remarkable educational and propagandist work which follows. For the contents of the two books are essentially the same, "The Economic Crisis," "A New Economic Theory" and an exposition of the type of "Socialisation" which Mr. Cole deems necessary for a rightly operative "economic system."

The first book is supplementary in that it discusses the defects in method and in terminology of current academic theory, especially the complex of errors surrounding the term "profit," with a subtlety that would be out of place in a work expressly intended for readers untrained in the economic textbooks.

Believing, as I do, that *The Intelligent Man's Guide* is the most serviceable explanation of the nature and causes of the collapse of the "Capitalist" system, and the most powerful and

in many respects convincing argument for a "planned" or "Socialist" economy, that has appeared, it will be convenient to quote from the author's "Notes" his own conception of what he seeks to achieve.

> "I begin by trying to describe the world slump and to lay bare its more obvious causes. But it soon becomes plain that the slump cannot be understood except in relation to the state of the world before it set in; and that means to the world as it was in the years immediately after the war." . . . "Ever since 1918 most countries have been trying —and failing—to get back to pre-war conditions." . . . "We shall have to ask, then, what was this pre-war system to which the nations have been striving to return, and how it grew up and drew country after country within its orbit, in the course of the nineteenth century. We shall have to describe its growth, and to outline its salient characteristics, in order to see whether its restoration is really something to be desired, or practicable even if it is desired."

These final words are the keynote to the reformative purpose to which Mr. Cole here devotes himself. For he claims to show that the restoration of the pre-war system is not desirable and not practicable, and that therefore the obligation to build up a better and more practicable system is of urgent present importance. Now most ardent reformers are apt to press the arts of selection, exaggeration and extenuation, so as to present a case favourable to their foregone conclusions. One of the conspicuous merits of Mr. Cole, however, is the fairness and objectivity of his analysis. The fullness of the measured facts in his presentment contributes greatly to the value of the book. Some economic readers may, indeed, jib at his failure to furnish the sources of most of the tables he supplies. But to do so would have loaded the pages with footnotes which would have rendered more difficult the task of "the intelligent man" sensible of his inability to test and criticise such sources. And in fact nobody acquainted with Mr. Cole's detailed accuracy will question the validity of this measured evidence.

The analysis of the character and causation of the world slump, the account of the part played by industrial and commercial factors, the new post-war importance of money and finance, are in themselves so intricate as to call for the utmost care in presentation and in wording, if they are to be made intelligible. Many attempts to perform this task have been

made, both by experts and by intellectual middlemen, with only moderate success. Mr. Cole lays out the problem with proper regard to the novelties of the post-war situation. But he never loses sight of the basic fact that we are plunged in one of those cyclical depressions familiar to the past century. This depression is deeper, wider, more prolonged and aggravated by war and post-war troubles. But it is only a worse example of a disease to which the narrower capitalism of last century was prone, complicated by grave monetary defects and disturbances peculiar to this depression.

The pivot on which modern industry turns is profit. For profit is necessary both as an incentive to the entrepreneur to operate the business system and as the chief means of the further accumulation of capital and increase of productive capacity. The inability to make profit is, therefore, the key fact in a depression. Plant and labour which were able to work productively and profitably two years ago can no longer do so. Why? Because there is no adequate market at a profitable price to absorb the goods which they could produce. But why have prices fallen below the profitable level? If all the income distributed in the processes of producing goods were spent without unnecessary delay in the purchase of these goods (whether final goods or capital goods) it would seem to be able to do so, without any fall in price level except such as might be attributable to a cheapening of costs due to improved technique or other economics of production. A slump must, therefore, be due either to a failure to apply without delay this income as purchasing power or else to some distinctively monetary disturbance which paralyses trade. It is the peculiar virtue of Mr. Cole's analysis that he accepts and correlates both explanations. Rejecting as insufficient the minor disequilibria in application of productive power, as between certain groups of industry due to post-war situations, he lays his finger firmly upon that disequilibrium common to all cyclical depressions, namely, the attempt to apply a larger proportion of net income to the purchase of new capital goods than can be utilised for the production of the smaller proportion of consumption goods which is thus involved. In a word, he recognises an attempt to over-save as a natural cause of slumps. So long as increased savings are actually applied through reserves or investment to the purchase of capital goods, all goes smoothly enough. But as soon as it becomes manifest that such investment cannot be profitably made, the trouble begins and continues. Had no war taken place, and no post-war economic

nationalism and debt burdens followed, the depression ripening in 1914 would have been both deeper and wider spread than in previous cases. For the extensions and improvements of power, with all the economies of rationalisation, would have accelerated the pace of production in the economic world beyond the capacity of consumption under the prevailing distribution of income. For it is the normal maldistribution of income that impels the repeatedly frustrated attempts to operate an excessive quantity of new productive capital.

While Mr. Cole makes quite clear this chronic defect of "capitalism," he gives equal attention to the monetary and other financial troubles of the situation, recognising that sufficiency of money and a reasonable stability of prices are essential to the working of this or any other economic system. His account of the gold standard, banking, and the control of credit illustrates better perhaps than any other section of this work his powers of clear exposition, though at times the sheer intricacy of the play of this most abstract of economic forces will put a great strain upon the understanding of the ordinary "intelligent man." This, indeed, is part of the challenge which Mr. Cole makes to the wider educated public which he addresses. Will the intelligent worker, who hitherto has regarded finance as belonging to a world of mystery entirely outside his ken, put his mind to grips with it, and recognise that, if he seriously wants a better and a safer social order, he must at least understand the basic factors in that order?

Mr. Cole expounds in one of his most interesting chapters the conditions of an adequate supply of credit. But when one reflects upon the unenlightened attitude in which more and cheaper credit is advocated and applied by financial experts in America and elsewhere as a stimulus to "recovery," one cannot feel confident that the public mind will work successfully in this rarified economic atmosphere. Here it must suffice to record Mr. Cole's judgment that

> "A mere expansion of credit will be of no avail unless it is accompanied by Government measures for the stimulation of demand through an extensive system of public works—housing, road-making, slum clearance and the reorganisation under public control of industries in need of fresh capital equipment" (p. 307).

In other words, monetary remedies will be effective in so far as they promote an enlargement of income or spending power

more favourable to an expanded demand for consumption goods. For only thus can fresh savings be validated and capitalism again become profitable. But, it may be said, is this what Mr. Cole wants? I think the answer is "No." But he is right in attempting to set out the immediate remedies which would revive the working of the present system, in order to show that such remedies must in themselves make the beginnings of a new planned industrial order. The impossibility of a return to *laissez faire* individualism is now generally accepted. For even if industrialism were to remain a clear field for private profitable enterprise, the recent vagaries of money make it evident that national and international controls of the financial machinery are essential to economic security. Not only must the dead weight of reparations and war debts, external and internal, be relieved by public policy, but any successful endeavour to raise the world's prices to a profitable level must be accompanied by a concerted plan for raising wages so as to furnish the rising standard of consumption that is the necessary adjunct of revived industry. Western capitalism might have a new lease of life if the opportunity were provided to equip China, Russia, India and the rest of the undeveloped populations with the machines and manufactured goods of capitalist countries. But even if the political difficulties of competing economic imperialisms could be overcome, such a recovery could only last until the backward countries were able to supply themselves. Mr. Cole does not believe that such a restoration of capitalism is feasible, because capitalism could not consent to the international wage policy needed to a continual expansion of markets. He therefore looks to the supersession of capitalism by national and international economic planning. The old crude idea of State Socialism is now nowhere entertained, but there must be adequate unified public control over all the key economic processes, money, investment, power, land, transport, external trade, as well as security for the employment and pay of labour. The workers must have their part in this control (though the technique of industry, commerce and finance must be left to experts), so that a sense of responsibility for social service may become a conscious incentive. It is, I think, just here that many readers will boggle in their acceptance of Mr. Cole's contention. His fair and interesting account of the Russian adventure will not go far towards persuading these bogglers that changed economic environment can so strongly and so quickly modify economic motives in this and other Western countries as to secure from the mass of

necessarily routine workers a full efficiency of labour without a regular conscious appeal to material self-interest. Mr. Cole, indeed, admits that some such compromise between social and personal motives will be necessary during a transition period. But he relies upon the proofs given of the unworkability of the existing economic system for the establishment of the new order. Many readers will agree that he makes out a powerful case for getting organised mankind to plan a reasonable economy by an extension of what is termed "rationalisation" in particular industries. Their chief doubt will be whether man is sufficiently rational and social to perform the fuller task successfully. But if the alternative is to cling to a visibly disintegrating system, they had better take their courage in both hands and try.

J. A. HOBSON

The Economic Lessons of 1929–31: the first eleven bulletins of the Unclaimed Wealth Utilisation Committee of Geneva, under the chairmanship of A. H. Abbati. Introduction by Prof. T. E. GREGORY. (London: P. S. King & Son. Pp. vii + 94. 4*s.* 6*d.*)

MR. ABBATI is a skilful writer, with a trenchant and impish pen: he runs an organisation with the sensational title set out above: he advocates deliberate budgetary deficits, financed by central bank credits, in all creditor countries, with a view to restoring wholesale prices to the 1926–9 level; and he is capable of writing that "had there been two men in the world of state-craft equivalent to an Edison, a Ford or a Selfridge, they could have ended the depression any time this year [1931]: had there been three such statesmen, they could have prevented it altogether." Here is enough to make many people throw this book into the waste-paper basket as just one more of the pieces of crude inflationary propaganda with which the world has been flooded in recent years. Yet, as readers of his previous work *The Final Buyer* will know, and as Prof. Gregory warns us in his wise little introduction to the present volume, to treat Mr. Abbati in this way would be a great mistake. He is an eclectic writer of shrewd and independent judgment; and no son of London or Vienna has written more trenchantly on the follies of uncontrolled inflation, miscellaneous state trading, commodity-boosting schemes and instalment buying, or more soberly on the limitations of the power of the banking system to control the volume of active money and the level of prices. His inflationist sympathisers will find a good

deal that is unpalatable, his deflationist opponents a good deal that is sympathetic, in his work.

It is true, however, that Mr. Abbati's chief concern is to hammer into the public mind the disastrous effects of the " wasted savings " which, failing to find embodiment in new concrete capital, result in real wealth remaining " unclaimed " because in large measure it remains unproduced. I am glad of the opportunity to endorse the tribute already paid by Mr. J. M. Keynes in his *Treatise on Money* to the vigour and independence of Mr. Abbati's pioneer work in this field (though I think he has run the risk of obscuring the essentials of his theory by a tendency to identify hoarding in the form of bank deposits with a carriage of actual cash into the banks). Further, it is clear that Mr. Abbati considers this danger to have been in some sense chronic in the post-war world—at all events more persistent than its opposite, the danger of excessive buying with its corollary of "forced abstinence," or whatever we like to call it. With one of his reasons for this judgment there will be general sympathy nowadays even in the most " orthodox " quarters—namely, the reluctance of creditor countries to buy the goods and services in which their debtors try to pay them. But Mr. Abbati also seems to believe (1) that a similar reluctance exists in creditor *individuals* as a class, so that the whole process of interest payment has a chronically deflationary tendency; and hence (2) that the reluctance of creditor countries to buy is not due mainly to tariffs or other manifestations of economic nationalism but to a maldistribution of wealth,—the rich do not wish to buy and the poor cannot. Thus he is at times led very close to that Hobsonian variant of the under-consumption theory which on other occasions he has criticised.

I do not feel at all sure that his mind is wrong to be moving in this direction; but once readiness to spend, rather than capacity to earn, is to be taken as the test of fitness to receive an income, it is difficult to see where, short of World Communism, Mr. Abbati or any of us can logically end up. I do not think Mr. Abbati squarely faces the fact that the reason why since 1929 (and indeed before) many groups of producers lost buying-power is that, on the ordinary criteria of individualism, they were not fit to receive it, and that the plenty amidst which the survival of poverty is such a paradox has been partly a sham plenty due to the natural determination of high cost producers not to surrender the positions to which they had, through no fault of their own, lost their title. The I. L. O. Report of 1931 was right in recording " the difficulties in the way of adjusting movements of population to the possibilities

of exploiting the resources of the world " and the speed of technical improvement and rationalisation as causes of depression, and Mr. Abbati is wrong in saying that they are not causes but "the *effects* of forcing under-consumption on millions of people." But his peculiar doctrines, and especially his doctrine that the expenditure of money earned is better because more stable than the expenditure of money borrowed, are, I think, of real service towards forming a judgment both on the historical question of what really happened in America in 1922–9 and on certain problems of present and future policy. As to the past, he is, I think, in error in taking the approximate stability of the American price-level, in those years of rapidly increasing productivity, as evidence of the absence of inflation; but is there not much to be said for his thesis that it would have been better if the new money had got about in the form of increased wages instead of in the form of "bad" loans abroad and of mortgages on buildings and instalment credit at home? Has he not reached by a different route the same conclusions as the neo-Wicksellians, with their over-lengthening of the period of production through the depression of the rate of interest below its natural level? And as to the future, in these days when so much is heard about the necessity for a revival of foreign investment by the creditor countries, is there not much force in Mr. Abbati's constant reminders that it is better to enable people to earn an honest living by buying their goods than to bankrupt them by tariffs and other means in order to chivvy them into new borrowings which they know they cannot afford?

Readers who wish to do justice to Mr. Abbati's position will do well to pay most heed to the weighty Bulletin No. 7—passing rather lightly over No. 4, in which he attempts to evaluate the "unclaimed wealth" by a weird farrago of methods, and the shrewd but somewhat ephemeral Nos. 9–10 on the position of sterling (it is brave of him to reprint his contention that there was nothing wrong with the British balance of payments in 1931). But throughout this short book they will find much to amuse, stimulate and provoke them; and will doubtless desire to receive the further bulletins of the enterprising Committee with the preposterous name.

D. H. Robertson

World Disorder and Reconstruction. By Hubert Blake. (Allen and Unwin Ltd. Pp. 186. 6*s*.)

A New Deal. By Stuart Chase. (Macmillan. Pp. 257. 10*s*.)

Mr. Blake's book is as clearly written an account of the history of the World Crisis, and of the issues of theory and policy

which arise in connection with it, as the ordinary student could wish to have. The continuous thread of his study is the crisis itself, and the manner in which numerous causes were superimposed on and accentuated each other. But his running comment is well informed on the side of its theory, and he perceives the limits within which various restorative policies are applicable. He has thoughtfully applied the findings of the Macmillan Committee, especially to the question of responsibility for the course of events. "If the actual conditions (of other than monetary policies) be allowed, the only reasonable conclusion to be drawn is that monetary management alone was incapable of correcting external derangements and preventing the fall in the general price level." The "blessing in disguise" of the situation now created is that it affords "not only the prospect of improved trade conditions, but a recovery of financial hegemony among the nations of the world such as would have seemed impossible a year ago." As measures to this end, he desires not only the co-operation of central banks, but an International Reconstruction Corporation, whose function is outlined. But the responsibility for future repair and stability cannot be too heavily placed on finance alone; the industrial contribution is also essential, the more so if progress in monetary reform must be slow. The right function of industrial control, especially in relation to the price policy of associations and combines in the trade cycle, is perhaps less agreed at present than is the corresponding banking function. But probably, in one case as in the other, the first thing is to agree that there should be definite management policy. "A great increase in the material welfare of all classes is a practicable possibility of the present era, but is dependent upon success in the sphere of monetary reform and further progress in the orderly development of large-scale industrial organisation."

Mr. Chase's book is of a more discursive kind, as is shown by the titles of such chapters as those on "Tailspin," "Witch-doctors and Surgeons," and "Blueprints." But it is full of vivid phrasing, and is a most readable popular appeal for a "third road" between the threat of either of two Dictatorships. He wants primarily to have it understood "what the economic system is for," but I am not sure that there is any simple answer to such a question. Whatever it is for, it will get it in better measure if both the "illiteracy of the consumer" can be protected against stunts (an interesting account being given of a movement in consumers' leadership towards this end), and if his list of "how things are done now" can be improved by similar

missionary work to interest the world of business in survey and planning.

D. H. MACGREGOR

Britain's Trade and Agriculture. By MONTAGUE FORDHAM. (Allen and Unwin, Ltd. Pp. 224. 7*s.* 6*d.*)

No one can doubt the earnestness of this book, or fail to appreciate its real concern for the confused conditions of our trade and agriculture in recent years. Many of the author's reconstructive ideas are in line with the current thought of economists and publicists. In respect particularly of the need for organised marketing, and for agricultural revival, his advance beyond the demands of private and semi-public researches indicates his special interest in our rural life. But the basis of this book is a theory of trade, and it is here that the economist will find him difficult to follow. It might indeed be best to say that the chapter on "Trade in Theory and Fact" should be referred to free traders as a fruitful source for quotation of what they never could think, and to the ordinary run of protectionists as a strong ration of their doctrine. In these columns, such tendentious argument is best reviewed by quotation, and not by counter-tendentiousness.

The history of the free trade movement is described as one in which successive parts were played by the religiosity of Cobden and Bright, the self-interest of financiers and traders, the "myth" of the hungry 'forties, inventions of facts, the desire of the Labour Party to conciliate the Liberals, Marx's destructive interest in free trade, hysteria and the idolatry of "the Word." Trade is not in itself good, bad, or indifferent; it has to be classified, and the root of the author's argument is in his classification of trade as constructive (or complementary) and destructive; with a cross-classification which includes barter trade, tribute trade, and finance trade. Complementary trade is the best trade, but in the other kinds there is liable to be a multitude of losses. I find it difficult to conclude how far the author would carry his limitations. The export of coal for wheat is twice uneconomic, because we are sending out capital and importing what we can produce. The export of machinery merely equips other nations to compete with us. So to a great extent do foreign loans, by creating the tribute trade. They also "may well be disastrous to the peoples of the exporting countries, who have to work hard (is not this a slip?) to produce goods, not for their own consumption, but to go abroad." Thus "while the Danes themselves suffer, the result of Danish importation into Britain is also disastrous to this

country." Could it be elaborated what the Danes, dependent as they are on agriculture, ought to do? Since we can export hardly anything that other countries cannot make or grow, and equipment exports turn against us in the end, what is the settlement that is fair to ourselves and them?

Obviously it is a degree of nationalism which goes beyond most of the current protectionism. "So long as men and women are free traders, optimists, pessimists or internationalists their minds are paralysed, and they cannot see the truth." The problem of civilisation can be dealt with only within limits over which control can be exercised. Within these limits, Mr. Fordham has many interesting proposals for reconstruction, but the spice of this book is in its impolite attitude to free trade and in a plentiful anecdotage in which the author for once is quite an internationalist.

D. H. MACGREGOR

Theoretisch-historische Inleiding tot de Economie. By H. W. C. BORDEWIJK. (Wolters: Groningen. 1931. Pp. 652. *Fl.* 13.90.)

"THE present generation lives too much in the present day." So says Professor Bordewijk in the concluding paragraph of this very notable work, in which, believing that he who is furnished with a knowledge of the history of a science is better equipped to grapple with the problems of the hour, he provides an admirable account of the contentions and the wrestling of spirit of past generations. In the not too extensive literature dealing with the history of economic doctrine, Professor Bordewijk's ample volume is entitled to a high place, in virtue of qualities which distinguish it agreeably from other books on the same subject.

How a history of economic doctrine should be written is a question which might furnish occasion for endless debate. In a sense, of course, it depends on the space which the author allows himself. Even in writing a book on economics, economic principles must be observed; and where pages are few in number, most urgent needs must be satisfied first. Then, apart from the great question of exclusion or inclusion, there is the problem of the relation of the history of economic doctrine to economic history. The historian of doctrine may not shut his eyes to the circumstances which beget a point of view; yet, if he is to get on with his job, he must resist the temptation so to explain his witnesses that he finds at the end that he has written a book on economic history.

Professor Bordewijk has allowed himself reasonably ample measure, so that in the main he is able to proceed leisurely where

he is interested. It would be easy to criticise his omissions and inclusions; but such criticism is always futile. The outstanding feature of his treatment is that, to an extent not equalled elsewhere, he allows his witnesses to speak for themselves. It is a peculiar merit of this book that the writers whom Professor Bordewijk discusses are not merely reported upon: in all matters of importance their own words, whether English, French or German, are reproduced. History (and biography) at times intrude, but never to such an extent as to make the reader forget that it is with theory that the writer is concerned.

This "Introduction" might perhaps be cited as an example of a present-day tendency to the unduly lengthy chapter, but here it does not have all the unhappy consequences which sometimes follow in the hands of less skilful writers. Though there are well over 600 pages of reading matter, the whole is condensed into five chapters. Of these the first is indeed, if not exactly an irrelevancy, at least something in the nature of a separate book. For in the first chapter Professor Bordewijk discusses *Grondbegrippen* (Fundamental Ideas). This is to a very large extent what we should call "Scope and Method," and deals with such questions as the relation of economics to practice and of economics to ethics. Professor Bordewijk traces the confusion that arises if the economist is expected to have a solution for all problems; likewise, with regard *e.g.* to wages, he observes the intrusion of ethical ideas into economic theory. On all this, as on the nature of economic law, the deductive and inductive method and much more, Professor Bordewijk is excellent; but except that it is written by one who can enforce his points by citing the views of the masters (and others), it is scarcely a part of the history of doctrine; and, if only for the comfort of the reader, striving to hold aloft this immensely heavy book, it might with advantage have been published separately.

The four chapters dealing with the history of doctrine are devoted to the Mercantilists, the Physiocrats, Adam Smith and his school, and to the Historical and Austrian schools. The chapter on the Mercantilists deals with such familiar names as Montchretien and Mun and (less familiar to us here) Pieter de la Court. The theoretical discussion is supplemented by a dissertation on Mercantilist practice, where we come across Richelieu and Cromwell, and by a consideration of elements which in these days might be regarded as constituting a mercantilist revival. Professor Bordewijk is perhaps less sympathetic to the mercantilists than has of late been customary. His own views are of the strictest

orthodoxy in the matter of Free Trade, and he cannot disguise from himself the cynicism and the selfishness of the mercantilists.

The chapter on the Physiocrats is chiefly remarkable for the high place assigned to Boisguillebert in the history of economic doctrine. He is in a sense one of Professor Bordewijk's heroes. The other hero, it is refreshing to observe, is Adam Smith, who alone occupies more than a sixth part of this book. Not that Professor Bordewijk is uncritical; indeed, he disentangles admirably, as M. Gonnard also has done, the physiocratic remnants in Adam Smith and the confusions to which these traces of physiocracy gave rise. He has also the courage to indicate that Adam Smith was scarcely fair to the entrepreneur. But his appreciation of Smith is tinged with something approaching personal affection. He properly notes the absence of fanaticism in Smith; but, more surprisingly, he remarks that in studying Smith, " despite all criticism, one constantly falls under the charm of this extraordinary man " (p. 379). This is a just remark, but it might have been thought that the subtleties on which the charm of Smith depends might have appealed only to his own countrymen—regarding Englishmen, for this purpose, as the countrymen of Adam Smith. The school of Smith as discussed here includes Say, Ricardo, Malthus, J. S. Mill and von Thünen. In Mill most attention is devoted to his theory with regard to the sphere of government activity.

The last chapter, on the Historical and Austrian schools, is perhaps of less interest to the English-speaking reader. The chapter is, in fact, almost entirely devoted to the historical school (of which List is looked upon as the founder), and tends in its later stages to deal with questions which we do not now find greatly exciting. But Professor Bordewijk discusses admirably the limitations of the historical method. " Feiten *vragen* verklaring. Zie *geven* haar niet " (Facts demand an explanation; they do not furnish it) (p. 594). This expresses with epigrammatic neatness the case for theory. In the very few pages devoted to the Austrian school Professor Bordewijk unearths an early Dutch anticipator of the marginal theory in Mr. S. van Houten, who discussed value in a thesis for a doctorate at Groningen in 1859. But Professor Bordewijk does not here get beyond the forerunners, and ends abruptly, excusing himself on the plea that there are other excellent books available on the Austrian school. It is a line of reasoning which, if admitted, would play havoc with the book trade, and in this case is disappointing to the reader. In fact, one gets the impression that Professor Bordewijk suddenly

felt that he had written enough. Which, of course, is always an excellent reason for stopping.

ALEXANDER GRAY

Marischal College,
Aberdeen.

Principles of Public Utilities. By ELIOT JONES and TRUMAN C. BIGHAM. (New York: The Macmillan Company. 1931. Pp. xiv + 799. 21*s.*)

IT is clear that most discussions of public utilities are aimed at an economic entity of some sort. That is to say, a public utility is for most writers something with economic peculiarities, appropriately to be argued about according to economic principles. But such discussions very seldom manage to keep this economic entity consistently in view. The reason for this is that primarily a public utility is not an economic entity at all, but a legal. It is primarily whatever is defined as such by statute law. But this legal concept is explicitly or implicitly dependent upon the existence of a political concept. Politically a public utility is whatever political scientists regard as a proper subject for the sort of legal treatment meted out to public utilities in the legal sense. But behind this, again, is an economic concept—the view that certain things have this political significance because their economic characteristics are peculiar. Thus writers on public utilities have, apparently without always knowing it, three themes in one, which unfortunately affords scope for confusion as well as for invention.

In not making this clear and in falling into many of the errors to which it usually gives rise, Professors Jones and Bigham cannot be said to have improved upon previous writers, for whom they seem to have no very great respect. Their first chapter, an excellent historical survey, is aimed fairly and squarely at public utilities in the economic sense—or rather at the particular five utilities (water, gas, electricity, tramways, and telephones) to which, following a sensible customary division of labour, the argument of the book is restricted. This survey is likely to become the *locus classicus* for brief but adequate information on American public utility history, as that in " Further Factors in Industrial Efficiency " has become for England.

Chapter II is more controversial. Here the authors attempt to deal with those characteristics which " are not in every case peculiar to public utilities, but taken in the aggregate . . . are sufficiently important to put the industry [*sic*] in a class by itself." Since the authors do not seem to be quite sure which of the three

concepts they are dealing with here, it is not altogether surprising that this chapter is rather confused. The first characteristic dealt with, the furnishing of indispensable services, will be admitted (perhaps with certain verbal reservations) as an indisputable economic characteristic of public utilities by all critics who know their subject. Not indeed as one that is peculiar in kind to public utilities, but nevertheless as one that is strikingly peculiar in degree. The authors are especially to be congratulated on having given the best description yet published of the exact nature of this degree of indispensability. Although their discussion might be improved in detail—on page 66, for instance, there seems a certain confusion between the indispensability of water and the indispensability of central water-supply services—in the main the authors have given a true account of the way in which the urgency of the demand for public utility products depends on the fact that they are services. It would be interesting to see this fact put in its proper relation to the usual doctrine that public utilities are monopolies—a task which the present authors have not attempted.

Instead of exploring this, Professors Jones and Bigham bow to tradition, and declare secondly that "public utilities are natural monopolies." Nobody of course will deny that so far as this is a peculiarity of public utilities it is an economic characteristic of the highest importance. But this is the only sense in which the authors are quite justified in assuming that "there is now almost universal agreement upon this point," for it seems high time to raise the previous question whether this is strictly a peculiarity of public utilities at all. Everything seems to depend on what is meant by "monopoly." If the word is used to mean the presence of only one seller in a market—that is to say, if the definition means that, quite independently of any special authoritative intervention, it is an economic impossibility for a customer to be offered by different public utility undertakings services which are so similar that a very small difference in price will induce him to change from one to the other—then it is manifestly unsound. If historical proof of its unsoundness were needed, it could be supplied by such experience as that of the Halle tramways or the Glasgow gas companies, or even the numerous American examples adduced on page 68 of the present work.

It would be ungrateful in a criticism of this section to pass over the authors' discussion of telephone costs, even if one wishes that they had been a little more positive in their condemnation

of the tradition that telephone services constitute an exception to a general rule of increasing returns among public utilities. They have done well in calling attention to the fact that misunderstandings on this point have been "due in large part to a disagreement as to the proper unit for measuring the services rendered," but their suggestion that a suitable unit would be the call-mile-minute does not seem very happy. This would be equivalent to speaking of ton-mile-packets in railway services, and contains a redundant dimension. Pages 89–90 further show the weakness of this side of the argument. But indeed throughout the whole literature of public utilities there is still insufficient recognition that all units of measurement are arbitrary, and that the arbitrariness is most pronounced when the things to be measured are not "goods," but services.

The characteristics already dealt with do at least belong to the sphere of economics. This is not true of the third, fifth, sixth, and seventh, in enumerating which the authors seem to be repeating an old fallacy which it can hardly be necessary to deal with at length. "Thorough-going regulation," "steadiness of earnings," and peculiar problems of ownership and employment are characteristics which take the political concept of public utilities for granted in attempting to explain the economic concept on which it is based. The confusion of the three concepts runs right through this book, in fact, and not this book alone. But quite apart from this, the cautious reader would be suspicious of the overlapping and irrelevant categories of such a classification as this. We still seem to be some way from the culmination of that scientific treatment of public utilities which Professor Ely assured us had been inaugurated by Professor Glaeser. Nevertheless, this is both a more scientific and a handier book than Glaeser's *Outlines*, even if it seems in places less informative.

The next section is the strongest part of Professors Jones and Bigham's book. It deals with certain technical problems in what is rapidly becoming the traditional order—Regulation, Valuation, Rates, Service, Finance, Business Relations. This is probably better done as a whole than by any previous writers, although some of the conclusions are vitiated by the confusion of the first part of the book. The chapters on rates are particularly commendable, if only for the way in which they avoid the imposition of heavier argument than the terminology will bear upon that overtaxed word "discrimination." One is inclined to suspect that the authors are not quite happy about joint and overhead costs. But which economist will cast the first stone

at them for this? And it is a pity that notions of justice and equity are applied where one would look for something a little more objective. Nevertheless, these chapters are very well done, as is also the chapter devoted to service standards—a much neglected branch of inquiry, the full exploration of which would lead to some interesting conclusions concerning units of measurement and ultimately go far to clear up the obscurities of the "discrimination" terminology.

The authors again follow tradition in concluding their work with a chapter on a question of political science that economists dealing with public utilities, for some occult reason always feel obliged to write. Professors Jones and Bigham's discussion of this matter of public versus private ownership is not up to the level of the middle of their book. Among other shortcomings, it seems to neglect the German experiments with the "mixed undertaking" and the theoretical conclusions which may be drawn from them.

Nevertheless, this book is one of the best general discussions of public utilities that have yet been written, and judged by contemporary American standards it is a good book. It may seem an impertinence for one who stands outside the whole legal public utility structure to call these standards in question; but sometimes the distant spectator sees the wood all the better for not being able to discern the separate trees. After all, the political problem of public utilities, still more the economic, is not peculiarly American. Whatever their legal superstructure, these more fundamental problems are attracting attention throughout the civilised world, and especially in England, Germany, Italy, and Japan. The really scientific textbook on the economics of public utilities will apply equally to the different conditions in all of these countries as well as to those in America. And it has not yet been written.

H. E. BATSON

The London School of Economics.

Taxation during the War. By SIR JOSIAH STAMP. (Economic and Social History of the World War. New Series. London: Humphrey Milford. Oxford University Press. 1932. Pp. xiv + 249.)

THIS volume contributed by Sir Josiah Stamp to the Economic and Social History of the World War falls into two distinct parts: first, a narrative of the debates on the British War Budgets presented between 1914 and 1918, and secondly, an analysis of

the Excess Profits Duty and of the difficulties encountered in its administration. It need hardly be said that in both parts of the book Sir Josiah's description and analysis possess very obviously what he calls "eyewitness quality." "I was busy," he says, "with the inception of most of the actual and most of the abortive schemes and changes, busy with their legislative programme and history, busy with the administrative aspects of many of them." With the penetration and insight of one who was concerned with the actual development of war-time financial measures is combined the objectivity characteristic of the spectator.

Those points in the Budget debates which are of interest, either on account of their association with older views or because of their anticipation of subsequent controversy, are selected for emphasis. At the time of the last pre-war Budget, speakers were still to be found who regarded the income tax as a weapon which should be only freely used in the emergency of war, and who quoted with approval Gladstone's views on the subject. On the other hand, anticipation of recent discussions is found in the doctrine that the income tax "was increasingly being treated as an ordinary business charge and passed on to the consumer."

Personalities do not stand out clearly with the exception of Sir Arthur Markham "turning every way as he stood denouncing with bitter scorn all who whined at taxation or tried to whittle away the provisions before the House." Considerable influence is attributed to Mr. Montague's speech declaring that everybody should contribute to the State either through tax or loan one half of his current income. One also notes the impression created by Lord Arnold's speech in favour of the capital levy, which "in my judgment was in most respects the most remarkable effort of any in all of the financial debates of the war." The general impression that is left, however, is that of the futility of a good deal of the discussion, ranging at times over proposals to tax bicycles and fancy names for houses, and the absence, apart from a few notable exceptions, of a grasp of the general financial problems of war. In dealing with the general situation himself, Sir Josiah suggests that qualifications must be admitted to the usual view that the opportunity to apply drastic taxation was neglected in the first year of the war. In a concluding chapter he accepts the thesis that in war better results are secured by permitting inflation to swell money profits and then taxing them away than by "the limitation of prices and profits with the absence of such taxation."

The evolution of the Excess Profits Duty and the problems associated with its administration are fully examined. Separate

sections deal with such special problems as underwriters' profits, the profits arising on the war time sales of ships, the valuation of stocks. The part played by the officials of the Inland Revenue in the smooth working of the duty is emphasised; but it is clear that these officials performed an even more important service in pointing out to Ministers the dangers of concessions which would have cost millions of pounds of revenue. The extension of the duty into the post-war slump involved the Exchequer in heavy repayments, but these repayments "must have saved many hundreds of firms from serious difficulties and even bankruptcy." This part of the book is certainly the more important and provides an illuminating exposition of the operation of the Excess Profits Duty.

E. L. HARGREAVES

Oriel College,
Oxford.

A Catalogue of the Library of Adam Smith. Second edition. Prepared for the Royal Economic Society by JAMES BONAR. With an Introduction and Appendices. (London: Macmillan and Co., 1932. xxxiv + 218 pp. 8vo. 21*s.* net.) (To Fellows of the Society, 10*s.* 6*d.*)

EVERY lover of Adam Smith should hasten to get a copy of this handsome volume, and not be misled by the short title into thinking it is merely a Catalogue. The Introduction and Appendices contain much that is new and interesting about the great master's life and writings, a portrait of Adam Smith and one of his mother, a ground plan of his house at Kirkcaldy, a discussion of the various portraits, statues, and statuettes by the late Mr. J. M. Gray, Curator of the Scottish National Portrait Gallery, Edinburgh, a facsimile holograph manuscript letter of four quarto pages from Adam Smith to his publisher, Strahan, and other attractive matter outside the Catalogue itself.

The Catalogue is embellished with quotations, printed in red, from Adam Smith's works and letters showing the use he made of his library in references. The list of books is greatly amplified by bibliographical notes which add to the enjoyment and instruction of the reader. It includes in round numbers 1100 books or pamphlets and 2200 volumes—probably about half the original collection.

One of the few cryptic utterances of Adam Smith is his saying "I am a beau in nothing but my books." Possibly his love for fine bindings was overborne by a greater love for economy, since the binding which was done to his order is usually the cheap work

of some craftsman who was neither expert nor artistic. Professor Nicholson had the good fortune to examine a large portion of the library before it was dispersed. He says: "I was most struck by the large number of books of travel and of poetry, of some of which there were more than one edition and occasionally *éditions de luxe.*" These last were probably presentation copies. A bibliophile would never have been content with the mean little bookplate which contains the words Adam Smith in a rectangle of which the four lines are not even accurately ruled.

It is clear that Adam Smith collected his library himself and was well acquainted with its contents, which testify to the catholicity of his interests. Nearly one-half of the books which have been traced are in French. Greek, Latin and Italian amount collectively to about 5 per cent. The economic section is, of course, the one which interests us most. The inclusion of Moreau de Beaumont's celebrated *Mémoires,* quoted in the *Wealth of Nations*, is not only justified by the very interesting letter from Adam Smith to Sinclair, reprinted on page 19 of the Catalogue, but also by the fact that Nicholson once took me to see the copy, with its inscription showing it to be a present from Turgot, in one of the great Edinburgh libraries, probably the Advocates'. Although this was about forty years ago, the book is doubtless where it was. One of the humours and pitfalls of bibliography is the Ouvrage posthume de Mr. B. I. D. P. E. C. (page 33). This was until this year catalogued by the British Museum under C as the initial of the author's surname. It has been pointed out to the authorities that the initials stand for *Monsieur Boulanger, Ingénieur des Ponts et Chaussées.*

The very interesting portrait of Adam Smith's mother, "now published for the first time," was printed in the special Adam Smith number of the *Fifeshire Advertiser* in 1926. The statement on p. 200 that the Overstone Library, now including the M'Culloch Library, is at Reading University, is opposed to the assertion in Quaritch's *Dictionary of English Book Collectors,* Part VI, of J. Ramsay McCulloch, 1895, that his books were sold at his death in 1864 to Lord Overstone and that many volumes were destroyed by a fire in Overstone's house soon afterwards. Only a very small part of M'Culloch's great collection survives at Reading as the M'Culloch library. The two statements are reconciled by this qualification.

The temptation to comment upon a great number of interesting items must be resisted. The first edition of the Catalogue was issued in 1894 on behalf of the Economic Club, London, then

newly founded and still flourishing. In the interval of thirty-eight years Dr. Bonar has pursued his researches with unflagging devotion and has laid us under a great burden of obligation. This greatly enlarged second edition, needless to say, is stamped with the hall-mark of his scrupulous erudition.

HENRY HIGGS

England To-day. By F. CYRIL JAMES, PH.D. (London: P. S. King & Son, Ltd. Pp. 238. 6*s*.)

THIS is a sensible little book which sums up the various aspects of the present economic situation of England clearly, giving due weight to the main factors involved. Monetary complications are first unravelled under such slogans as "getting and spending," "what is a pound?", "the cross of gold"; then follow the industrial problems of high wages and of rationalisation and unemployment; and finally the implications of international trade and finance are set forth. The solutions of these problems that are put forward are often of the pious aspiration type, looking to salvation by good-will, co-operation and co-ordination; but I heartily endorse the practical suggestion (p. 140) that by shorter hours technological unemployment may be mitigated. Dr. James might indeed have followed up this suggestion by examining how far the increase in the costs of idle overheads likely to result, could be avoided by working shifts—by diminishing the hours *of labour* but increasing the hours *of capital*. Again, in discussing the framing of index-numbers of general purchasing power, (p. 47) some allusion might have been made to Mr. Keynes's constructive suggestions in his Treatise on Money, and in the chapter headed "Banking Policy and the Price Level" some credit perhaps been given to Mr. Dennis Robertson's book with that precise title. But on the whole Dr. James shows himself well versed in the recent literature of economics, whether official, academic or independent.

The treatment is elementary and should appeal to the large and apparently growing number of untrained general readers who are eager to follow and understand the intricacies of the economic system,—at least whenever a crisis occurs there. The occasional tables that illustrate the text are well-chosen and to the point. But may a protest be made against the growing practice here exemplified of relegating all footnotes to an Appendix? Footnotes, we are informed, "tend in many cases to interrupt the train of thought of the reader." Surely short notes tucked away, accessibly, at our feet, do not really "interrupt trains of thought."

The more thoughtful reader should, in fact, welcome immediate attention being called to the documentary sources of summary statements in the text. P. SARGANT FLORENCE

The University,
Birmingham.

Emergency Finance for Small Business. By K. A. COLES. (London: Crosby Lockwood & Son. Pp. 71. 2*s.* 6*d.*)

THIS little book may be recommended to those who wish to become familiar with the rugged outline of company finance in its legal and accounting aspects without being overwhelmed by an avalanche of detail. Some familiarity with the forms and conventions of business dealings seems advisable at a time of emergency, when the question of how the industrialist is to raise capital and to cut down costs is so much in the economist's eye. Three of the seven chapters (II–IV) deal with these matters, the remaining four being devoted to accounting practice, partnership and amalgamation, limited companies and, finally, arrangements with creditors.

Anything that throws light on the behaviour of *small* businesses is particularly welcome where, as probably in England, the bulk of dealings is still between small businesses while the bulk of writings is certainly about large businesses and combinations. It is refreshingly realistic to be told that "the greatest drain on a business is usually the drawings of its owner" and that a "business man's personal expenditure often attains considerable dimensions," so much so, indeed, that a "domestic balance-sheet" and "domestic income and expenditure account" should be kept to ensure home economics.

The style is clear and succinct and reference is facilitated by numerous cross-headings and an index.

P. SARGANT FLORENCE

The University,
Birmingham.

Finance and Politics. By PAUL EINZIG. (London: Macmillan & Co. 1932. (Pp. x + 139.)

THE reader of this volume may be inclined to wonder whether any nation could emerge unscathed from so searching and ruthless a scrutiny as Dr. Einzig applies to the policy of France since 1926. Motives are seldom quite uncomplicated; behind the most apparently disinterested generosity there may lurk a suspicion that it might pay in the end, and even the seekers after the

Kingdom of Heaven may harbour fleeting thoughts of the things that will finally be added unto them. Dr. Einzig does indeed admit that it is difficult to prove motive, yet he piles indictment on indictment in a manner that is sometimes unanswerable, sometimes impressive, and occasionally inclined to be lurid.

Recapitulating the familiar events of past years, he not only shows that France has consistently used her financial power for political purposes, but reads into her actions a deliberate policy of seeking financial hegemony, at whatever cost to the rest of the world, to suit her national ends. While Great Britain has aimed throughout at restoring world prosperity, and accorded her help impartially to former allies and fallen foes. France has never given assistance except to secure an ally or weaken a potential adversary. Four loans have been granted by her for the express purpose of increasing armaments, but any country that required capital for constructive purposes must look to London or New York. Dr. Einzig has no difficulty in finding facts to support his indictment: the French attitude in the Credit Anstalt affair; her delay in accepting the Hoover Moratorium; her unwillingness to co-operate in the rescue of Germany in 1931; her withdrawal of balances from London and New York whenever a passing breeze blew over international relations. But Dr. Einzig penetrates further behind the scenes: Hungary must change her government to suit France; the author of the ill fated Customs Union Scheme and the President of the Austrian National Bank are removed from office and replaced by French nominees; the Roumanian Banca Marmorosch is allowed to fail that she may learn a lesson in political sympathies; M. Laval visits the United States and persuades President Hoover not to repeat the gesture of the previous summer. Finally, it is argued that the deflationist policy avowedly pursued by France was definitely intended to accentuate the existing world depression because such depression, while doing little harm to a self-contained country, spelt frozen British and American credits, and consequent French financial supremacy. Here Dr. Einzig admits that it is difficult to prove motive, but argues that persistent deflation in circumstances that should normally have produced inflation, is not susceptible of any other explanation.

France has not been successful in keeping the financial supremacy for which she had worked so hard, partly because of Great Britain's unexpected recovery, but chiefly because the French temperament, which is essentially that of the peasant who will not be parted from his gold, unfits her for the part of the Banker, who must nurse his clients in good times or bad. In this

part of the argument it becomes a little difficult to disentangle descriptions of fact from hopes and wishes. The book was published before the Lausanne Conference, which for the writer, was fraught with great possibilities. He hardly dares to hope that the leopard will change his spots, but if the unexpected should happen and Reparations be abolished, he forecasts a spectacular world recovery. On the other hand he argues that if France insists on her pound of flesh, Germany will be justified in repudiating her obligations, and not only because she cannot pay. Similarly, and apparently without any hesitation on so delicate a threshold, he argues that once Reparations are cancelled, France has every right to repudiate her debt to America.

The end of the book is a little weak, partly because it deals with possibilities that are necessarily vague and partly, no doubt, because it has left the bracing atmosphere of denunciation for the softer airs of counsel. Dr. Einzig in matters of finance commands a respectful hearing, and finance is perhaps too pervasive of human affairs to be adequately isolated. Yet the inquiry into motive, even if it convinces, does nothing for the cause of world reconciliation which is the avowed object of the writer, as of all thinking persons.

H. REYNARD

Principles of Marketing. By FRED E. CLARK. (New York: The Macmillan Company. Revised edition, 1932. Pp. viii + 657.)

THIS work, the first edition of which appeared in 1922, is one of the best of the many treatises on marketing and allied topics which have appeared in recent years in the United States of America. It covers a wide field with much success, beginning with farm products at wholesale and retail and passing on to the marketing of manufactured products and to a detailed consideration of the many problems that arise in retail distribution. Finance, risk, cost of marketing, State help and State control in selling are suggestively handled; and room is found for consideration of such controversial topics as Price Maintenance and Co-operative Marketing. While the examples chosen and the conditions contemplated have reference almost entirely to the United States, much of the discussion has a general application and should afford help to students elsewhere of this very important branch of descriptive economics.

Comparison with the first edition demonstrates that certain developments in marketing of fundamental importance have taken place during the past ten years. Some of these are the direct

consequence of the growth of road motor transport and of the greater efficiency and speed of transport by rail. Others are due to improved technique in the standardisation and grading of products and to the growth of large-scale operations in manufacture which force business men to devote special attention to the sale of their products, while others, again, are the consequence of the revolutions that have taken place in the general field of retail trade. Advertisement, too, has increased both in quantity and quality during the period under review; and trade associations and trade papers for the dissemination of market news and market conditions have been multiplied everywhere.

The chapters devoted to retail trade emphasise the enormous cost of doing business in the large department stores and mail-order houses in the United States. No European figures are given by the author, but those that are accessible support the thesis that similar establishments in the larger English cities are confronted with similar difficulties. The cost of delivery alone, of goods to customers by London department stores, works out at 2·4 per cent. of retail prices, and the liability to waste, coupled with exceedingly high advertisement costs, generates an additional charge which small-scale retailing escapes. The latter, however, always has a low turnover of merchandise which tends to increase the net unit cost of doing business; but this drawback can be overcome, and the conclusion is inevitable that the glitter and show of the large department store with all its trappings of rest rooms and the like are paid for by the consumer through the maintenance of retail prices at a higher level than is necessary. This will continue until management in small-scale retail trade makes further advances in efficiency. The multiple shop system, dealing in a small range of goods, is the customers' safeguard at present.

In his discussion on price maintenance the author concludes that the evil results accruing from cutting the prices of branded goods are not so great as the advocates of price maintenance seem to believe; but he is willing to concede to manufacturers the privilege, if they desire it, of attempting to maintain prices. He argues, however, that they are likely to be successful under certain conditions only and that even then it is doubtful whether they really benefit in the end. His conclusion that the whole question is a relatively unimportant one for all concerned seems eminently sensible. Coupon trading, which rouses the ire of the retail sections of Chambers of Commerce in England, is not among his catalogue of unfair competition methods, nor does anything

resembling it call for comment elsewhere in the work. Surely American manufacturers are not behind their European competitors in this device of advertisement and salesmanship.

J. G. SMITH

University of Birmingham.

Business Rationalisation. By C. S. MYERS. (Pitman and Sons, Ltd. Pp. 76. 3*s.* 6*d.*)

THE special contribution of this book to the problems of Rationalisation comes from the side of biology and psychology. In the first chapter, Dr. Myers points out both the similarities and the differences of organic evolution and economic organisation. "The evolution of business has taken place by integration and co-ordination of formerly separate units, rather than, as in the evolution of forms of life, by differentiation and subdivision within an originally single unit." In business, we have to create the unity of direction which in organisms was always there; and in another aspect this means finding the right scope for both intuition (the characteristic of simple organisms) and reasoned planning. In some respects also, the organic analogy is applied to the types of combination which Rationalisation usually adopts. Dr. Myers quotes the examples of structures which develop a sort of instinctive "colony" life, and also the fact of "symbiosis," where organisms of different grades live together for their mutual benefit. In such phenomena, he sees the analogies of the horizontal and vertical combines.

In the field of analogy and illustration, this is of considerable interest, and the author agrees that it must not be pressed too far in the sense of proof of what is economically right. The biological analogy was a favourite one of Marshall's, who sometimes used it as a support or justification of the economic tendency. But with all its great interest, it is only, I suggest, with caution that the analogy can be used to establish anything in industry as being, because of a good analogy, therefore a good movement. If economic technique were to change, so that a new tendency appeared toward the break-up of the great integrated and combined structures, then it might be possible to find biological analogies for that, as we have found them for the contrary process.

In the chapters dealing with the applied methods of Rationalisation, Dr. Myers has dealt fully and fairly with the benefits and dangers, and his conclusions are similar to those of the recent study of the subject by the I.L.O. The human factor will be the real test of the possibilities of the new technique of management,

and to that technique, therefore, industrial psychology must make an important contribution. D. H. MACGREGOR

The Whitley Councils Scheme. By JOHN BARTON SEYMOUR. (London: P. S. King. 1932. Pp. 248.)

MR. SEYMOUR'S book fills a definite gap in the economic literature of industrial relations, for there has long been needed a careful and accurate account (such as this undoubtedly is) of the genesis and development of the Whitley Councils.

Mr. Seymour has done well to wait until a sufficient number of years had elapsed for it to be possible to see the trend of evolution of the councils and to collect evidence of their practical working at some distance from the initial period of enthusiasm.

The first Whitley Council Report was signed on March 8, 1917, and the fifth and last on July 1, 1918. Their preparation thus coincided with some of the most critical phases of the Great War. The memory of the acute industrial unrest prevailing in the years immediately before the War was still vivid in most people's minds; the desire to avoid industrial war in the future was a natural extension of the feeling of abhorrence towards warfare in general; while the well-known camaraderie of the trenches, with its apparent breaking down of class distinctions, led to the belief that an essential change of mind had come about which only needed the appropriate machinery in the industrial sphere in order to achieve and maintain peaceful relations between all men of goodwill. The demobilised soldier, turned civilian worker once more, must not be allowed to come back to the old chaotic disorganised conditions that had obtained before the War. It was considerations such as these that led to the production of the Scheme and that accounted for the enthusiastic reception which it had at the hands of the Press and the general public. But not all the ardour with which Mr. Seymour throws himself into his description of the valuable work accomplished by some of the Whitley Councils can conceal from the reader the fact that the great expectations cherished by those who introduced and welcomed the Scheme must have been sorely disillusioned by the course of events since 1918.

The author shows that between 1918 and the end of 1920, 75 Whitley Councils had been established in trades varying in importance from needle and fish-hooks, or packing-case-making up to the pottery industry; but though he mentions it he does not attribute proper importance to the fact that coal-mining, engineering, cotton, building and shipbuilding, with nearly three

and a half million workpeople, have held aloof from the Whitley Councils Scheme. Between 1921 and the end of 1929 eight more Whitley Councils were established, to which must be added two sectional trade councils and nine local councils, making a total of 94. Of this number, 30 have ceased to function; of the remainder, 28 meet quarterly, or in a few cases more frequently, while 22 do not meet regularly at all, but only as required, thus infringing one of the cardinal principles of the Scheme. Nevertheless, fourteen years of trying out the Whitley Councils Scheme have revealed not so much errors of structure or principle—these have on the whole stood the test well—as human failure to make the best out of the institutions in actual practice. But here due weight must be given to the effects of continuous industrial depression, with its consequent unemployment, the weakening of the trade union movement, and the diversion of public attention to other problems.

Mr. Seymour is a strong advocate of legal power being granted to the Councils to enforce their agreements, and it is to the lack of this power that he attributes the breakdown of many of the Councils. He is able to point to the fact that out of 64 Councils in active existence, only five were opposed to an Industrial Councils Bill, while 27 were definitely in favour. On this and other questions, such as the reasons for the failure of the Works Committees to fulfil their rôle as an integral part of the whole scheme, Mr. Seymour writes sensibly and with moderation. It is clear that his work is based on a close first-hand study of the actual operation of the Whitley Councils, and as such it has a very real value.

C. W. GUILLEBAUD

Economic Theory and Correct Occupational Distribution. By HAROLD F. CLARK, Professor of Education, Teachers' College, Columbia University. (New York, 1931.)

THE chief theses which Professor Clark sets forth are: (1) that occupational distribution is correct when people of equal ability receive equal incomes in all occupations; (2) that, while a given group of workers lose by an increase in their numbers, all other groups gain, because the services or goods provided by the first group become cheaper; (3) that when occupational distribution is correct, the income of the country is a maximum.

Professor Clark holds that work which needs long and expensive training is well paid, not because of that fact, but because the need for such training restricts the numbers which enter the calling, and gives them a certain monopoly value. By readjust-

ments in numbers, therefore, the aim of equal pay for equal ability can be secured.

The author thinks that the basic cause of long-term unemployment is occupational maladjustment, and adduces in illustration the case of Great Britain, where four industries—coal, textiles, metal trades and shipbuilding—were greatly expanded during the War and are now over-supplied with workers. For the same reason, the United States have "two hundred thousand men in the soft coal districts who should not be there," and also an excess number of agriculturists.

A chapter is devoted to extracts from the writings of other economists in support of the main contention of the book, and in another chapter Professor Clark states and illustrates (rather than proves) his theory of correct occupational distribution. At all events, he makes clear his meaning and its applications. While there are, he says, too many American farmers, textile workers and unskilled labourers, there are too few doctors, engineers and skilled artisans.

It is pointed out that the economic mobility assumed by the theory of *laissez faire* was never actually realised, the obstacles to entry into different trades and professions—obstacles both natural and artificial—being often insurmountable by most people. Both in the past and the present, each calling proclaims that it is overcrowded, and tries to restrict its numbers—overtly to maintain high technical standards, and covertly, and perhaps unconsciously, to preserve monopolistic advantages. Hence, if any control is to be exercised, it should be the State or the Local Authorities who do the planning and regulation—not professional organisations or labour unions.

From the thesis that equal ability should earn equal incomes, Professor Clark proceeds to consider how this object is to be secured. He lays great stress on the educational aspect of the problem, and would have the State provide freely all necessary training, the numbers needed in different occupations being estimated by statistical enquiry and economic planning, and made known publicly, so that candidates, their parents and the schools should be kept continuously well-informed.

Professor Clark deals chiefly with American conditions. To an Englishman it would have been of interest to consider how far the increased facilities for entry into professions and skilled trades given by modern educational ladders and the lowering of social barriers have been offset by the increased effect of professional organisations and trade unions backed by unemployment

insurance to increase the rigidity of our economic machine. In a time of falling prices, this rigidity has certainly helped to prevent, for good or ill, the adjustment of wages to a rising value of money, and that mobility of labour which seems necessary to secure an approach to correct occupational distribution. W. DAMPIER

The Economic Basis for the Teachers' Wage. By LESTER DIX, Ph.D. (New York City: Lincoln School of Teachers' College, 1931. Pp. xiii + 114.)

THIS is a novel and interesting treatment of an important question. Is there a sound economic basis for the determination of the teacher's wage, and if so what is it? Dr. Dix takes his stand on two principles taken from Professor Pigou's *Economics of Welfare.* The first lays stress on the desirability of increasing the real income of the poorer classes to the widest possible extent, so long as the national dividend does not suffer thereby; the second maintains that occupations requiring equal ability should receive equal pay. Ability reduces itself, when all socially controlling factors have been ruled out, to some form of intelligence; hence the first step is to test the intelligence of the teaching profession.

Dr. Dix rejects the Army Alpha Test pure and simple, because this does not measure the lowest ranges of intelligence, and adopts Boring and Brigham's combined scale worked out from the Army Alpha, Beta and Mental Age scores. He chooses for his purpose the elementary grade of teachers, since these are the best known and the most characteristic, and finds that the average freshman teacher in training is exceeded in intelligence by 1,038 persons out of every 10,000 of the population, while the teacher in service is surpassed by 823 out of every 10,000. A list in order of merit places teachers in service below the ordinary run of graduates, while teachers in training, considerably lower in the scale, have below them only the students of pharmacy, dentistry and veterinary medicine. Although normal schools do not attract as good material as all Colleges, it is consoling to hear that teachers in service are found almost altogether in the upper half of range of general intelligence: three-quarters of the teachers exceed 85 per cent. of the population, one half exceed 90 per cent., and one quarter fall in the top 4 per cent.

When we pass to the consideration of earnings, we find that teachers do not, in comparison with persons in other occupations, receive the monetary reward that their intelligence merits. The mean intelligence of the elementary teacher entitles her (it is

generally her) to an annual wage of $2,762. This figure is arrived at by adding to the general average wage of $1,865 the 1·38 S.D. to which the teacher's intelligence entitles her. Taking the entire range of intelligence tests, a fair income for teachers would range from $2,430 to $3,106.

A comparison of "fair" income with actual income in various occupations shows that teachers get on the average $447 less than their intelligence warrants; that unskilled labourers get $178 less, while skilled labourers get $589 more, the clerical and trade groups get $473 more, and the professional and executive $608 more than their due. Allowing for portions of income derived from property, Dr. Dix concludes that the economic interests of the country as a whole would be best served if teachers were paid one-third more than they are in fact receiving.

What is the cause of this discrepancy between actual wage and fair wage? Obviously, the fact that under the operation of economic forces it is not ability but scarcity of ability that commands a special reward. And there is, in the United States, an over-supply of teachers, just as there is an over-supply of unskilled labour. This is due partly to the fact that training for teaching is offered free of cost by the State, and partly to the large numbers of women who are still shut out of other occupations and crowd into the teaching profession.

If this over-supply is likely to be permanent, it must lead us to a reconsideration, and possibly to a correction, of the figure of the ideal wage. This course, Dr. Dix, though he does not rule out the possibility, is obviously unwilling to adopt. He suggests instead a better planning of recruitment by organisation of agencies and spread of information about existing opportunities, a widening of the range of occupation for women, and the extension of free vocational training to other occupations. There is no hope, he concludes, of properly adjusting the teacher to the economic situation, without taking into account all other occupations. Fair wages for teachers mean fair wages for all groups.

No one is likely to quarrel either with Dr. Dix's reasoning, or with his conclusions, although it may be objected that the range covered by his records is somewhat narrow for the superstructure it is made to carry. It is difficult to understand the bearing of the table on page 57, which he describes as a "rough, common-sense comparison" between various occupational groups. The table places graduate students on a level with best high army officers, outstanding leaders of professions, most important business executives and University professors. Senior students are

equated with the next lower ranks of each group, and so on down the scale until freshmen are coupled with unsuccessful members of the professions, holders of minor business posts and inferior teachers. Since the freshman is, after all, the material of which the graduate is made, while in the other groups (with the exception of the Army) the successive steps are sharply contrasted and even mutually exclusive, the comparison would seem to be of little value, if not actually misleading.

Apart from this apparent lapse, which does not affect the main argument, Dr. Dix is cautious and judicial throughout. Readers on this side of the Atlantic may not feel quite at home either with his statistics or with his terminology, but they will not fail to be interested in a piece of research which breaks fresh ground, and constitutes, as the editor picturesquely describes it in his introduction, "a rare and thrilling adventure, laying out a new road through a virgin forest." H. REYNARD

Women's Place in Industry and Home. By SYLVIA ANTHONY. (Routledge. 1932. Pp. 244. 7s. 6d.)

IN this study Mrs. Anthony has attempted to focus all the factors, economic and social, which influence the position of the modern woman. The book is in no sense a work of research, all the economic material being drawn from secondary sources. It is rather a survey of familiar facts from a particular, and an important, angle.

Thus, after presenting the main facts about the distribution of women's labour between various occupations and industries and the relative rates of male and female wages, Mrs. Anthony examines the economic conventions of marriage; the attitude adopted by Trade Unions towards the problems of women's wages and employment; the effect on both sexes of the gradual rise of petticoat factory legislation; and the economic and social consequences of our habitual underestimate, if not complete disregard, of the unpaid services of the home-maker. The author is disposed to accept, on the whole, the current explanations of the relatively low level of women's wages. She inclines towards disapproval of differential factory legislation for the protection of women, though she does not carry her opposition to the extreme length of those feminists who wish to amend the Convention relation to the employment of women after childbirth by substituting throughout its text the word "person" for the word "woman." She advocates equal pay for equal work (in the sense most likely to enable women to earn exactly the same

amount as their male colleagues in any occupation), family allowances and, above all, a revision of marriage law, or at least of marriage custom, on lines (such as those of the Swedish Act of 1920) which would make the home-making wife's income independent of her husband's fancy. If change follows these lines, Mrs. Anthony believes that the present widespread unhappiness of women, married and unmarried, whose economic and social needs find no satisfaction within the framework of existing society, could be removed without the abolition of the family home as the normal social unit.

The book is written with great liveliness, which should hold the attention of many readers. Its strictly economic arguments, however, become decidedly shaky whenever they leave the beaten track. Thus in Chapter XII it is argued in detail that during a time of trade depression women's employment increases in proportion to men's, not so much because women get men's jobs, as because industries which enjoy the advantage of cheap female labour gain a competitive advantage over those not thus blessed. This is illustrated by statistics of male and female unemployment in Britain from 1921 to 1930. Had the author, however, analysed the occupational composition of these figures, and in particular the contribution to men's and women's unemployment made by coal and cotton (the classic case of equal pay) throughout the period, it is very doubtful whether anything would have been left of her case. Again, Mrs. Anthony repeats the old fallacy (hallowed, it is true, by very high authority) that motherhood is the most dangerous of all occupations because the death-rate at the time of childbirth of those mothers who have children in any year exceeds the general occupational death-rate of, say, miners. But the miner is daily exposed to the risks of the pit, whereas no mother bears a child a day. The miners might well ask that their risks should at least be compared with the ratio of deaths in childbirth in any year to the total number of married women of child-bearing age. Finally, the problem of finding the money to finance a system of family allowances is dismissed in a sentence, on the ground that this is a problem of "redistribution" rather than of "extraneous expenditure." Alas, that good cause should so often be spoiled by bad argument!

BARBARA WOOTTON

Unemployment Benefits in the United States. By BRYCE M. STEWART. (Industrial Relations Counsellors. New York. Pp. 727.)

Unemployment Insurance in Switzerland. By T. G. SPATES and G. S. RABINOVITCH. (Industrial Relations Counsellors. New York. Pp. 276.)

Unemployment Insurance in Belgium. By CONSTANCE A. KIEHEL. (Industrial Relations Counsellors. New York. Pp. 509.)

Unemployment Insurance in Wisconsin. By R. S. HOAR. (Milwaukee, Wisconsin: The Stuart Press. Pp. 101.)

EVERY tide of unemployment in the United States during the last quarter of a century has cast up studies, reports and resolutions by legislatures. The present deeper depression has led to greater changes in public sentiment and to an obvious eagerness for alleviative measures. The American Federation of Labour, for half a century a citadel of old-fashioned individualism, resisting State intervention and compulsion, now demands unemployment insurance. A number of firms have instituted savings funds and establishment unemployment funds. The State of Wisconsin has passed an Unemployment Reserve Act, and in other States legislation on this model is in active preparation. With this change in outlook there is an eagerness for information on existing unemployment insurance schemes. The Industrial Relations Counsellors foresaw this situation in 1928 and undertook the task of making a series of detailed studies available. Miss Kiehel describes the working of the Belgian system in five hundred pages, and Mr. Stewart, the general editor of the series, deals with the very limited number of trade union and establishment funds in the United States in a portly volume of seven hundred and thirty pages. It was evidently the intention of the editors to bring together every scrap of evidence and much of the discussion bearing even remotely on the working of State unemployment insurance schemes, State subsidised funds, trade union and establishment provisions. They meant to provide source books for the lawyers and the draughtsmen of new schemes. The specialist may use them for reference, but even he would find them rather wearisome reading. They contain nothing new but give a comprehensive account of the growth of this piece of social machinery and how it works.

The best book in the series is that of Spates and Rabinovitch on Unemployment Insurance in Switzerland, not merely because it is more selective and condensed, but because its conclusions

carry conviction. They point out the inadequacy of a nationalised Ghent system, which in spite of heavy subsidies—over two-thirds of the expenditure comes from public funds—covers only one-fifth of all wage-earners. The situation is not much different in Belgium, where one-third of the population are covered. In spite then of their realisation of the inadequacy of national compulsory schemes of the British and German type, bankruptcy of voluntary schemes is making the demand for national schemes clamant. It is misleading to write of Belgium, "The entire system is almost as completely voluntary as the earliest efforts at the beginning of the century."

None of these writers are troubled by the two new facts which have emerged since 1929. We can no longer base ourselves on the assumption that the pre-war experience of unemployment can guide us to-day. For eighteen years all our forecasts as to the amount of unemployment to expect have proven wrong. We also see that whatever the type of scheme—British or Ghent—the right to unemployment benefit once granted cannot in the name of pure insurance principles be withdrawn if the recipient through no fault of his own has exhausted his right to benefit. A grave sense of injustice is thus created.

A useful appendix to these studies is the hundred pages of information relating to Unemployment Insurance in Wisconsin by R. S. Hoar, which contains also the text of the Act relating to unemployment reserves and compensation, and some discussion of the case for and against it. Unless employers in this State guarantee steady employment to their workmen or adopt a satisfactory system of voluntary insurance before June 1, 1933, they will be compelled to establish compulsory unemployment reserves. Each employer will be obliged to pay the total contribution, 2 per cent. of his wage bill, in respect of each employee into the State Treasury. His account will be kept separate from other accounts, and if the unemployment in his establishment is reduced, his liability will also be lessened. It is evident that the project, which is an attempt to break away from European national schemes, ignores the two main facts of their experience.

JOSEPH L. COHEN

Die Ursachen der Krise. By F. SOMARY. (Tübingen: J. C. B. Mohr. Pp. 122. 4.20 *m.*)

PROFESSOR SOMARY is well known to the English public as one of the brilliant and all too rare exceptions to the rule in

economics that theoretical acumen and practical success are incompatible. In the present volume he gives a reprint of twelve articles and speeches written in the fateful period 1926–32, a period which offered unparalleled opportunities to the economist, opportunities which have been missed by most of them partly because of the triumph of conventionalism and of fashionable slogans ("reconstruction," "high-wage prosperity"), and partly because of an unaccountable subservience to views which were official and presumably, therefore, regarded as patriotic. Cleverness after the event, which is so current now, is unnecessary for Professor Somary. His "essays in persuasion" were, in a different sphere, even more disregarded than those of Mr. Keynes; his views too are now vindicated to an extent which is almost uncanny. It is approaching to irony that his warning against short-term borrowing (in 1926) should have been uttered to the leading director of the Creditanstalt, the collapse of which marks the end of the "reconstruction" which he so clearly demonstrated to have foundations built upon sand. And must it not be considered as tragic that his views on the basic contradictions were unheeded at a time when everybody was acclaiming and promoting the so-called (Sanierung) "healing" reconstruction loans which in the end brought about their own utter ruin and undoing?

No symptom of this amazing period so full of irreconcilable tendencies escapes his analysis. His inclinations are those of an entirely deflationist psyche. But when was there ever a period and where was there ever an environment more justifying the professing restrictionist views than the boom period in the European debtor countries? One is sorely tempted to quote this little volume from the beginning to the end: such is the power of the author to get to the core of things almost ruthlessly and to explore the conclusions to their bitter end. What he has to say on the international trade, currency, and credit problem, on the question of banking, and on the liquidation of the breakdown of the financial system as one knew it, will always constitute an invaluable contribution to economic analysis and also to the "material" of the greater and lesser experts of the "economic conference to end conferences"—that is, if economic topics will not be altogether excluded.

There can, I believe, be no better compliment paid to this admirable book than the hope that its author will soon predict a turn in the tide.

T. BALOGH

Les Finances de l'Empire Japonais et leur Évolution. By ANDRÉ ANDRÉADÈS. (Paris: Félix Alcan. 1932. Pp. 203. 15 *fr.*)

THE ability of Japan to westernise her economic and political life in the period following the Restoration of 1868 depended largely on her success in solving the difficult financial problems associated with that policy. Her public finances during the last sixty years, therefore, present an extremely interesting field for study, and to this Professor Andréadès has addressed himself. He begins with a brief review of the political, social and economic conditions of the Tokugawa era, and he passes on to consideration of the financial administration both of the Shogunate and of the local governments. His account of the later years of Tokugawa brings out clearly the fact that the financial disorganisation of the period was one of the chief causes of the political changes which culminated in the Restoration.

Professor Andréadès is mainly concerned, however, with the financial problems raised by the circumstances of the new régime. Part II of his book deals with the "preparatory era," from 1868 to 1894. Here he discusses, first of all, the increasing chaos in the currency and public finances which attended the abolition of feudalism, the Satsuma Rebellion and the breakdown of the old economic structure of Japan. He then proceeds to describe the achievement of financial stability after 1881 by means of the institution of a centralised banking system, the reform of the currency, and the establishment of the foundations of a new taxation system. The rapid recovery of the country from the economic disorders of the early post-Restoration years bears witness, as he indicates, to the remarkable skill of the leaders who guided the country in those difficult years. Part III deals with the period from 1894 to 1910, a period which includes the Chinese and Russian wars, the achievement of tariff autonomy, the adoption of the gold standard and the beginnings of a colonial empire. The author describes the methods by which these wars were financed, and he shows that the fear of a war of revenge led, after 1905, to further growth in the already large expenditure on the army and navy; while the new political responsibilities in Formosa, Korea and Manchuria also proved costly. In order to meet these expenses and to provide for the amortisation of the large public debts incurred mainly as a result of the Russian War, the Government was obliged to impose heavy additional taxation which, in spite of the rapid increase in the national wealth, proved very oppressive. The financial administration of the period,

however, was successful in so far as it improved Japan's credit, and between 1907 and 1912 she was able to borrow abroad on very favourable terms for the purpose of converting her outstanding debts.

Part IV covers the Great War and the post-War period up to 1928. The prosperity of Japan between 1914 and 1919 and the consequent buoyancy of the revenue enabled the Government to meet its increased expenditure during those years without resort to further borrowing, and serious financial troubles did not appear until after the War. The years 1919–28, however, witnessed a great increase in State expenditure, most of which was financed by new loans; while local government finances were conducted with even greater prodigality. Professor Andréadès is of the opinion that financial administration during the post-War years was the least satisfactory of any period since the 'seventies and its effect was to create a position of great instability. The causes of this situation are summed up under four heads. First, the Government, in its desire to raise Japan's prestige, carried expenditure on the public services to a degree unwarranted by the country's resources; second, diplomatic complications, particularly those following on the abandonment of the Anglo-Japanese Alliance, resulted in the maintenance of military and naval expenditure at a level even higher than that of 1918–19; third, the earthquake of 1923 led to a great increase in borrowing for reconstruction purposes; and fourth, the depression of 1920–1, the financial crisis of 1927, and the present world slump, forced the Government into heavy expenditure for the relief of economic distress.

In the last section of his book, Professor Andréadès deals with the efforts made after 1929 to secure budgetary equilibrium and with the restoration of the gold standard in January 1930. He gives an account of Japan's economic and financial difficulties since the world slump began, and he explains how these led to the abandonment of the deflationary policy adopted in 1929. The comprehensive character of the book is enhanced by the inclusion of a series of short appendices dealing with such topics as the growth of population, the increase of the national wealth and income, the westernisation of economic life, the public debt, and the financial administration of the overseas possessions. The relations between the economic and political developments of each period and the changes in fiscal policy are clearly exhibited and the book supplies, therefore, not only an excellent account of Japan's public finances in the modern period, but also an outline of her

general economic history. Possibly some of the numerous footnotes might, with advantage, have been incorporated in the text; but otherwise the arrangement of the matter is admirable, and the book has the great merits of conciseness and lucidity.

G. C. ALLEN

University College, Hull.

Contributions to the History of Statistics. By HARALD WESTERGAARD, formerly Professor of Statistics in the University of Copenhagen. (P. S. King & Son, Ltd. 1932. Pp. vii + 280. 12*s.* 6*d.*)

MR. WESTERGAARD has provided in handy form a brief history of statistics down to the close of the last century, which will be found of great use to students of the subject. It is unbiassed and well-balanced, though some may grumble that he has confined himself too much to vital statistics and has rather cold-shouldered the other branches. He promises a continuation to deal with the more recent period, saying that "the last thirty years form a most attractive period in the history of statistics, and, if my advanced age permits it, I hope later to enter on the subject, attempting to value the present tendencies and to draw the horoscope of statistics on the basis of evolution in the present century." Some of us have been wondering about these tendencies and have been perturbed at some of the attempts to apply refined mathematical methods to data at best imperfect and unsure. We, at least, will hope that Father Time will deal kindly with Mr. Westergaard and permit him to accomplish this very necessary task. Apropos of some words in the preface, it may be added that there are very few signs that our author was writing in a foreign language. Many English writers might envy his clarity, and there recurs to memory only one obscure passage, on page 80, where, dealing with a calculation by Moheau, he says: "For the whole kingdom there will be one birth out of about 25½ inhabitants, whereas there will be about 121 or 122 for each marriage"; after "122" the word "inhabitants" should be added, and perhaps "in a year" after "marriage."

The early writers on "statistics" compiled handbooks to States, usually without numerical observations, but in the second half of the eighteenth century the addition of particulars of populations, births, deaths, etc. became frequent, and in this manner the way was prepared for the merging of statistics as "Staatenkunde" in statistics as "Political Arithmetic." "The

cradle of political arithmetic," says Mr. Westergaard, "stood in London, where in 1662 a merchant, John Graunt, published a remarkable book, *Natural and Political Observations upon the Bills of Mortality.*" He adds that "Petty has sometimes erroneously been considered the author of Graunt's book," thus reviving a controversy which in some aspects has resembled the Shakespeare–Bacon dispute. When so bonny a fighter as Professor Greenwood assails the pious ancestor-worship of the Marquis of Lansdowne, we others may be pardoned for standing outside and enjoying the fray! The history of statistics to the end of the eighteenth century centres round the names of Graunt, Petty, Halley, Gregory King, Davenant, and Süssmilch, and the ground traversed is much the same as that surveyed by Dr. Bonar in his "Theories of Population" (ECONOMIC JOURNAL, September 1931). Mr. Westergaard gives some more details of the work of the chief arithmeticians, and has rescued from obscurity many writers who worried about the size of populations and their movements since the Flood, the true rates of mortality, the proper basis for tontines and life annuities, and similar problems, and so in places his book almost resembles a catalogue. It would be unjust to apply that term to the work as a whole, but it necessarily lacks the literary grace of Dr. Bonar's work.

Statistics entered upon their modern phase when England in 1801 established the population census, following the example set by Sweden in 1748. Now, for the first time there was a sound basis of vital data on which statisticians could work. Laplace in 1786 had suggested the method of sampling, and he with De Moivre, the Bernoullis, and others had treated the calculus of probability and the measurement of probable error. New tools as well as new material were becoming available. The natural result followed. "In the history of statistics the two decades 1830–49 can justly claim the character of enthusiasm." In this country the organisation of the Statistical Department of the Board of Trade in 1833 by G. R. Porter, the establishment of civil registration in 1837, and the appointment of Dr. Farr in 1839 as "Compiler of Abstracts" for the Registrar-General are the chief official events, but there was similar activity in most other countries. Under the influence of Quetelet the British Association set up a statistical section in 1833, the Manchester Statistical Society was founded in the same year, and the Statistical Society of London (now the Royal Statistical Society) in the spring of 1834. There was a pullulation of local societies, mostly with a brief life. The relations between the London

Society and Government Departments was from the beginning very close, though never of the quasi-official character sometimes found on the Continent. It is interesting to observe that the original object of these Societies was to collect data "exterendum aliis," as the old motto of the London Society ran, but theorising could not be kept under and the temptation to draw conclusions from insufficient data proved as irresistible as it had been in the seventeenth and eighteenth centuries; on this charge Dr. Guy comes in for a good deal of criticism.

The period of enthusiasm ended in disappointment as too high hopes shattered in the lack of facts. There followed the period of Congresses, from 1853 to 1878, when nine international Congresses and four meetings of a "permanent commission" were held. These were mainly of an official character modified by the "international picnics" which led Newmarch to doubt the utility of the Congresses. Meanwhile, in all countries official statistics were being vastly extended into new economic spheres and their reliability was being improved. Knapp, Zeunev, and Lexis were pioneers in the theoretic problems of vital statistics, and in the last decades of the nineteenth century Edgeworth, Karl Pearson, Yule, and Bowley were active in theoretic investigations of a general character; if the names of prominent students in other countries were added to the list, it would stretch out to the "crack of doom."

HENRY W. MACROSTY

The Recording Angel: A Report from Earth. By J. A. HOBSON. (Allen and Unwin. 1932. Pp. 126.)

IN this little book Mr. Hobson is the Messenger, and in dialogue form he presents his economic and political philosophy to a Recording Angel, who is God, as Mr. Hobson would like him to be. It is very prettily done. But to criticise it at length in the ECONOMIC JOURNAL would really be to raise the many issues in Mr. Hobson's well-known writings, of which a list appears in the frontispiece.

Had I been the Recording Angel, I would have differed politely from the following:

"That bloated type of Nationalism called Imperialism is such an instance of the combination of the ultra-patriot and the acquisition capitalist" (44). This seems to me merely to be "calling names." And again:

"Men will more readily sacrifice their sons to Moloch than their money, as the experience of the Great War testified" (27).

This is uncharitable and untrue. But I fear my sympathy disappeared before this, when I read on p. 23 the old and hoary misrepresentation of Adam Smith: "His ethical teaching of the 'invisible hand' which sanctified selfishness," etc., etc. For as Adam Smith's own preface should prove once for all, he was acutely alive to the injuries which "the private interests and prejudices of particular orders of men" might inflict on "the general welfare of the society" (Ed. Cannan, I. 3).

C. R. FAY

NOTES AND MEMORANDA

New Zealand's Economic Difficulties and Expert Opinion: A Comment

In his article in the September number of the Journal, Professor Copland presents the case for a revision of the New Zealand rate of exchange. In the course of his analysis, he has thought it necessary to pass certain comments upon Sir Otto Niemeyer and myself, to which it is only appropriate that I should reply.[1]

(1) In two places in his article, Professor Copland accuses me of a desire to see the New Zealand pound revert to parity with sterling. Thus on page 377 it is said that a rise of sterling prices much greater than any likely to take place was necessary "if the traditional policy of the banks and the Treasury was to be successful, and New Zealand *to return to par with sterling* without grave hardship." Again, on page 379 the circumstance that I referred to the fact that if exchange were raised it might be difficult to reverse the steps then taken is construed as indicating an opinion on my part that such a return to parity could or should constitute the "only possible object of monetary policy for New Zealand."

I do not believe that it is illegitimate to point out that if

[1] Since Sir Otto Niemeyer's name is coupled with mine throughout the article, it is well to state explicitly that at no time did I communicate, directly or indirectly, with Sir Otto Niemeyer during the period whilst the opinion was being drafted: I was not even aware that Sir Otto had been consulted in the matter. Professor Copland begins his article by referring to an apparent failure on Sir Otto's part, as well as on my own, to draw the attention of the New Zealand authorities to the true reason for New Zealand's exemption from the troubles which were besetting Australia at the time of our visit to Australasia. The facts are as follows:—As the New Zealand Government announced at the time, Sir Otto Niemeyer had been invited to New Zealand specifically to discuss the technical banking situation. I left for New Zealand a week before Sir Otto, and my time was fully occupied in discussing the technical details of the banking and currency situation, both with the Treasury and the bankers. When Sir Otto came to New Zealand, we had only a relatively short time for joint discussion before my boat sailed for the United States. I saw no Ministers except for two courtesy calls and was not invited to express any opinions on the New Zealand economic situation, officially or unofficially, nor was the expression of such an opinion relevant to my visit. I do not know what Sir Otto may have been asked or have said privately, but does Prof. Copland?

Professor Copland's policy is adopted, it may prove necessary to adopt a new par; but that is surely not equivalent to a statement on my part that I regard a reversion to the old par (10 per cent. below the present one) the prime object for which New Zealand should strive. I did imply that a rise of sterling prices would enable the *present* rate to be more easily held. I certainly said nothing to imply that in my judgment it would necessarily result in New Zealand pounds appreciating in terms of British pounds.

Moreover, I expressly referred to the possibility of the alternative policy (which Professor Copland prefers) of allowing exchange to look after itself, and argued that if this possible alternative were to be adopted some of the difficulties which it might occasion would be mitigated, if New Zealand were to create Central Banking Machinery.

(2) On page 375 Professor Copland observes that "it is remarkable to find authorities like Sir Otto Niemeyer and Professor Gregory deploring the increased issue of Treasury Bills that would be necessary to finance the external debt service under a higher exchange," for such higher cost would be more than offset by an increase in taxable capacity. In the footnote on the same page the matter is again referred to: and it is stated that I argued that "increased Treasury Bills would be required to finance remittances for the overseas debt, that an automatic expansion of the volume of credit and currency would follow and an increase in the New Zealand price level." On page 378 it is said that "both Gregory and Niemeyer refer to *inflationary* borrowing on Treasury Bills," which is followed by the query, "Should we not clear our minds of what we mean by inflation?" These matters being all clearly connected with one another, I deal with them as a whole here:—

(*a*) There are clearly two points involved: viz.: What happens (if exchange rises) *before* the Budget is in balance and afterward? I do not know what precise significance Professor Copland attaches to the word "deplore" in the sentence above. I do not find in my opinion (para. 6) any deprecatory words: but a statement to the effect that "a rise of exchange adds to the cost of remittance, and since the Budget is unbalanced and the banks are lending exchange to Government against Treasury Bills, the volume of such Bills is automatically expanded as exchange falls . . . there goes on an automatic expansion of the currency and credit volume, which must in the long run help to raise the New Zealand price level and thus

deprive the farmer of a further part of the gain from exchange." What I had in my mind was clearly the short run effects of the rise of exchange: and in the next paragraph I expressly refer to the possibility that credit expansion and higher incomes might alleviate the budgetary situation, though I added that "expenses will also tend to increase and if, as is inevitable, the increased cost of imported goods leads to a reduction of consumption, customs revenue at least will decline." [1] I pointed out further (para. 8) that as 55 per cent. of the New Zealand public debt is held in London, "the relief to the public debtor which accrues from rising prices and falling exchange applies to the smaller portion of the debt."

(*b*) Professor Copland is thus completely mistaken in stating that I referred to "inflationary borrowing on Treasury Bills," if by that he means to imply that I used that term, and if he did not mean to imply this, I fail to see the point of the query which follows immediately after the words alluded to above. Is it illegitimate (i) to point out that an unbalanced budget represents an *independent* factor tending to raise the level of costs, so that, if exchange is allowed to fall, there will be forces tending to drive up the internal price level in New Zealand? [2]

(ii) That in a country with a large external debt the degree to which the burden of the public debt can be reduced is more limited than if the greater part of the debt were held at home?

(iii) That, whatever the real advantages of an expanding national income may be, the budgetary gain is liable to be limited by the rise in internal costs?

(iv) That before committing the country to a policy of higher exchange the whole matter ought carefully to be weighed?

(*c*) Professor Copland attempts to convict me of inconsistency on this particular matter by referring to certain opinions of mine expressed in the *Monthly Circular* of the Royal Bank of Canada in October 1931. That article was written before the abandonment of the gold standard by Great Britain, as was indeed clearly pointed out in the concluding passage of the article in question. The expansion of Central Bank credit as a means of "reflation" may well be objectionable if the exchange is fluctuating, and unobjectionable if it is not. Further, I expressly argued for

[1] I am prepared to agree that the effect on customs revenue which I feared would result from a rising exchange is doubtful.

[2] Subject, of course, as regards the second, to the movement of prices, not only of exports, but also of imports.

concerted action on the part of Central Banks, and had no idea in my mind, then or since, that what I said would be interpreted as favouring *independent* action of this kind, especially in a country without any adequate Central Banking institutions and in immediate want of a foreign loan. In any event, there would seem to be some inconsistency between Professor Copland's opinion that the course projected is unobjectionable "provided Budget balancing is in sight and prices do not *rise* (italics mine) above their pre-crisis level" (page 379), with his view that I am in error (*v.* footnote page 375) in supposing that there would be some rise of prices. The fact that the price rise, if it happens, is unobjectionable is not the same as proving that it will not take place.

(3) Professor Copland argues that "some economists in England have the point of view of the lender rather prominently in their minds" and proceeds to chide me on the ground that I drew attention to the "unfavourable reaction on New Zealand credit of a high rate of exchange." He would have been more correct if he had said that in my opinion it was fluctuating rates of exchange which disturbed the money market. I do not know that there is anything reprehensible in stating a plain fact: but he will forgive me if I say that it is somewhat trifling with the problem to suggest that the April loan of £5,000,000 "will remind New Zealanders for twenty-three years of the virtues of a low exchange rate." Does he suggest that if exchange had been pushed up before the issue of the loan, the rate of interest demanded would have been lower?

(4) The problem involved in the existence of locally managed currencies goes, however, to the whole root of the differences between Professor Copland and myself. Professor Copland will at least agree that I have never been an enthusiast for independent paper standards: and in my last book I expressly state why I hold the opinions I do on the subject: whilst the "paper standard possesses the great advantage that it allows of an adjustment of the exchange to the level of costs instead of forcing the level of costs into adjustment with the rate of exchange," yet "a universal paper standard would either imply that the exchanges of all countries are kept at par" with those of some great centre, "which would force on all the world's countries, except one, the necessity of adjusting costs to the exchange; or it would mean that every rate of exchange should be allowed to fluctuate in terms of every other; a condition of chaotic economic nationalism quite inconsistent with a rational development of world economic affairs."

To that opinion I still adhere, but I hope I may say here that I am quite cognisant of the immediate difficulties which adherence to a fixed exchange may inflict upon a raw material producing area, or, for the matter of that, upon a manufacturing country as well.[1] Professor Copland rightly says that Sir Otto Niemeyer and myself "counselled caution in exchange policy." There is some danger that readers of his article may overlook that, in my opinion, I argued not for inflexible adherence to a fixed exchange, but for delay on the ground that "the fact that the greater part of the present exporting season is over whilst the British price level is likely to be exposed to quite novel influences in the near future, makes it desirable to wait for some time, even if on balance a change in the rate is considered desirable." I cannot see that it is illogical to argue that (*a*) rising prices abroad might make the alteration of exchange unnecessary, but that (*b*) even if an alteration in the rate took place, the net benefit to the producing interests owing to the repercussions on costs, might be less than was anticipated. It is easy enough to point triumphantly to the experience of a further six or ten months, and insist that world prices have not risen; but, in fact, at the time when I was writing originally the *Economist* general index (Sept. 8, 1931 = 100) had risen by nearly 11 per cent. and the index of *Primary Products* by nearly 21 per cent.

(5) Professor Copland accuses me of "flat contradiction" when I state that "the existence of a surplus of £7,000,000 in the balance of trade for the first eleven months of 1931 robbed of a great deal of its weight the argument that the present exchange rate seriously over-valued the New Zealand pound." Apart from the substitution of the words "great deal" for a "good deal,"[2] Professor Copland has missed the whole point of the paragraph to which he alludes. The point at issue between us is not whether I deny the existence of over-valuation, but whether the degree of over-valuation existing at the moment when I was writing had seriously embarrassed the export trade of New

[1] That a rise in exchange would immediately benefit exporters was, of course, expressly pointed out by me in the first paragraph of my opinion.

[2] Since this is a matter of some importance, I quote the whole paragraph (No. 14) as I originally wrote it: "The argument that the present rate of exchange seriously over-values the New Zealand pound loses a good deal of its force in the light of the trade figures from which it appears that for the first eleven months of 1931 the cumulative balance in favour of New Zealand is £7,000,000—'a vast improvement on the figure for a similar period of 1930 of only £500,000'" (Monthly Abstract, December 1931, p. 3). In justice to Professor Copland, it must be pointed out that the quotation from the official abstract did not appear in the published extract from my opinion.

Zealand and/or had seriously over-stimulated imports. In his anxiety to discredit me, Professor Copland has made use of an argument which leaves the question of fact where it was. It was open to him to argue that the rationing of imports deprived the statistical facts of the importance which I thought they possessed: he chooses to assert that I deny the general argument that over-valuation is detrimental. I may have been misled by the over-optimism of an official statement; Professor Copland, if I may say so, has been misled by the zeal of controversy into a serious misrepresentation of my position.

(6) Professor Copland again accuses me of inconsistency in the view which I take of the possible reaction of a rise of exchange upon the level of wages and interest and rent in New Zealand. Here there are two issues, (*a*) as to what I actually asserted would follow upon a rise of exchange in New Zealand, (*b*) the consistency of these assertions with what I previously wrote about the British situation.

(*a*) Professor Copland does not go so far as to maintain that I said that these costs would rise in the short run: I only "gave encouragement" to such views, although later on I am accused of "giving credence" to popular fallacies. As regards wages, what I *actually* said was that "if farmers' sale proceeds go up in consequence of exchange falling, and if at the same time the prices of imports are forced upwards, it seems inevitable that wage level will cease to fall, and if the pressure on real wages becomes marked, for money wages to go up again." As regards other costs, I argue that the popular argument that "the primary producers will be *permanently* better off through the reduction in the real burden of interest and analogous charges . . . can easily be pushed too far." I expressly allowed for a time lag, but argued that, in a period of rising prices, interest rates tend to go up, owing to the desire of lenders to protect themselves against loss.

Here, again, it is perfectly legitimate for Professor Copland to argue that I have exaggerated the danger of a rise of prices taking place. But he does not allow for the fact that a falling sterling value of the New Zealand pound is itself a reason for the export of capital from New Zealand and a deterrent to investment (unless the loan is made in terms of British pounds) in New Zealand, a double movement likely to have some effect on the level of New Zealand interest rates.

(*b*) Professor Copland remarks, that my views on costs under a higher rate in New Zealand, "are in strange contrast to

what he has written on the same problem in Great Britain." The reference is to Chapter IV of my *Gold Standard*; and the general nature of that reference would inevitably leave in the reader's mind the impression that here is another case of gross contradiction.

I would begin by pointing out that the position of New Zealand is not, as a matter of objective fact, by any means necessarily the same as the position of Great Britain. The general feature of this depression (as indeed of previous ones) is that raw material prices have fallen much more markedly than the prices of manufactured articles. It follows that a given fall of the exchange may influence the absolute costs of imports more in the raw material country than the cost of imports in the manufacturing country. Great Britain, moreover, is in a position to divert her demand for raw materials and food-stuffs over a wide area, and since the demand for such materials (and especially food-stuffs) is inelastic in the short run, there is considerable reason to suppose that Great Britain can throw upon the raw material producing areas a part of the burden of the depreciating exchange. Such possibilities are by no means equally open to a country such as New Zealand. Even if I took a different view of the position of costs in the two cases, there would not *necessarily* be anything "strange" about the matter.

I have, however, carefully re-read the chapter to which Professor Copland refers in the light of the criticisms he has passed upon me. I find myself, on page 70, expressly referring to the circumstance that "to the extent that foreign raw material is irreplaceable and that food imports from abroad must be relied upon, a fall in the exchange must result in a narrowing of the advantage derived from going off the gold standard, for the fall in the exchange must sooner or later, and sooner rather than later, be reflected in a rise of British costs." On page 71 I say that the British manufacturer's advantage will diminish "if through the rise in the cost of imported food-stuffs, or other elements in the cost of living of his work-people, his wage charge increases, or if, through the indirect effect of the fall in exchange on his other costs, his total costs rise." On page 75, after expressing my general opinion that last October the exchange was undervalued, I find myself stating that the possibility of an improvement in sterling exchange "is subject to one assumption of fundamental importance, viz. that monetary policy will be directed towards preventing a rise in the general level of prices and of money incomes. An inflationary policy, whether due to the

exigencies of Governmental finance or to the pressure of business opinion, would, of course, alter the position altogether." It is true that after citing the now well-known calculations of Professor Bowley, I say that "it appears reasonable to suppose that if the rise in food prices is not likely to be more than, say, 4 per cent. to 10 per cent., no direct pressure on the wage level will be exerted for some time to come, so that . . . the British wage level is not likely to rise" (page 74). I think, however, that any candid reader would be constrained to read this last sentence in the light of the context, and not think that I commit myself to a prediction that, under no matter what level of exchange, British wages will not rise. I have no desire whatever to evade the issue; but I must be permitted to say that in my opinion my remarks do not deserve the charge of strange inconsistency which Professor Copland has levelled against me.

(7) There is one final point in Professor Copland's article to which it is perhaps desirable for me to refer. He remarks (page 377, note 1) that I had "nothing to say . . . about the ultimate effects of the pegging of exchange and the over-valuation of a currency." In the first place, apart from the effect of an unbalanced budget upon the level of New Zealand costs and prices, my whole argument was based upon the possibility of a further rise in the sterling level of prices and upon the diminution, therefore, of the existing level of over-valuation. In the second place, I was asked to express an opinion upon the desirability of an immediate rise in exchange, to which I gave what I hope is not in itself an unreasonable reply; why not wait to see how sterling prices develop? But if Professor Copland desires me to express an opinion in what should be done ultimately, I am quite prepared to agree that (*a*) if it is impossible for New Zealand costs to fall further, (*b*) if it proves that sterling and/or gold prices continue to fall sharply, then the present level of New Zealand exchange may have to be altered. But, believing as I then did, and still do, that the *disproportionate* fall in raw material prices is a feature of the depression which will disappear with the depression, and believing also that the British position was and is one which makes a rise rather than a further fall of sterling prices probable, I desired to avoid the psychological and other difficulties associated with the removal of the peg if it was at all possible so to do.

T. E. GREGORY

London School of Economics,
Nov. 19, 1932.

Decreasing Costs: A Note on the Contributions of Mr. Harrod and Mr. Allen

"It is thus a sufficient condition of equilibrium that costs should rise for increasing quantities of output. . . . If it be supposed that in a firm costs other than competitive marketing costs are falling . . . but that the rise in the latter [marketing costs] more than offsets the fall in the former [non-marketing costs] . . . the total cost schedule (old type) is a rising one." That seems obvious enough, and it must have seemed quite obvious to Mr. Harrod when he wrote these words.[1] It is the purpose of this note to suggest that it is no less obvious to-day than it was at the end of 1931, and that there was no need for Mr. Harrod, in his reply to Mr. Allen in the last number of the Journal,[2] to throw suspicion on the generality of his conclusion by inventing a special case, of a peculiarly arbitrary nature, to subject to Mr. Allen's mathematical apparatus. It is not merely "in the conditions postulated [by Mr. Harrod in his reply to Mr. Allen that] the downward gradient of the non-marketing cost curve may be as great as, but must not be greater than, the upward gradient of the marketing cost curve," but *in any conditions whatsoever*. It does not require mathematics to prove this, but, on the other hand, if mathematics is to be employed, it is just as easy to investigate the general case as the special cases invented by Mr. Allen and by Mr. Harrod.

In the course of his mathematical translation of Mr. Harrod's original article, Mr. Allen apparently found it necessary to make a special assumption about the behaviour of marketing costs. "For simplicity," he wrote,[3] "take the marketing expenses of each source as a function of the ratio of the source's individual output to the total output." Mr. Allen was then able to obtain the condition which must be satisfied if a firm that is earning a positive profit is to be in equilibrium; and translating it back into English, Mr. Harrod was somewhat perturbed to find[4] that it amounted to saying that (the rate of fall of average non-marketing costs) must be less than (the rate of increase of *aggregate* marketing costs) divided by (the firm's output). "It is difficult to glean anything without further elucidation," one must agree with Mr. Harrod; and the conclusion does not accord with Mr. Harrod's common-sense statement, quoted at the opening of this note. So Mr. Harrod set about to make a different assump-

[1] Economic Journal, December 1931, p. 568.
[2] *Ibid.*, September 1932, p. 491.
[3] *Ibid.*, June 1932, p. 324.
[4] *Ibid.*, September 1932, p. 490.

tion from Mr. Allen's, though an analogous one—an arbitrary assumption, Mr. Harrod admitted, but "more probable," he claimed, than Mr. Allen's arbitrary assumption. He assumed that *average*, instead of *aggregate*, marketing costs were a function of the ratio of the firm's output to the industry's output; and making use of Mr. Allen's mathematics, and adding some of his own,[1] he was then able to arrive at the conclusion which has already been quoted. But it would really have been simpler for Mr. Harrod—or for Mr. Allen, for that matter—to have worked out the perfectly general case, in which nothing is known about the behaviour of the marketing costs. x_r being the output of the firm, and x the output of the industry, Mr. Harrod wrote $\psi_r\left(\frac{x_r}{x}\right)$ for the average marketing costs of the firm. He might equally well have written, quite generally, $\lambda_r(x_r, x, z)$, where z represents any variable relating to the industry, such as Mr. Harrod's *state of demand*, which is not covered by x.[2] He would then, proceeding exactly as before,[3] have reached the general conclusion that $-\frac{\partial F_r(x_r, x)}{\partial x_r} \not> \frac{\partial \lambda_r(x_r, x, z)}{\partial x_r}$, where $F_r(x_r, x)$ is the average non-marketing cost of the firm. Or, in other words, "the downward gradient of the non-marketing cost curve may be as great as, but not greater than, the upward gradient of the marketing cost curve," not only "in the conditions postulated" by Mr. Harrod in his note, but in all conditions.

But what then of the conditions postulated by Mr. Allen in *his* note? For Mr. Allen certainly reached a different conclusion. The fact of the matter is that Mr. Allen made a slip. In stating the condition that the firm shall earn a positive profit, Mr. Allen in effect wrote[4] $\pi_r < p$, where $\pi_r = F_r(x_r)$ is the average non-marketing cost, and p is the price of the product. But Mr. Allen was forgetting the marketing costs, and he should have written $\pi_r + \frac{1}{x_r}\phi_r\left(\frac{x_r}{x}\right) < p$, where $\phi_r\left(\frac{x_r}{x}\right)$ is the aggregate marketing cost

[1] ECONOMIC JOURNAL, September, 1932, p. 491.

[2] So long as the industry's output is completely determined by the *state of demand*, z can be omitted. Mr. Harrod's difficulty about drawing a supply curve that shall be independent of the demand curve (ECONOMIC JOURNAL, December 1931, p. 568) is then deprived of its force. It is true that the position of the firm's cost curve depends on the *industry's output*, because marketing costs depend on the state of demand, but this is the familiar case of external economies, and need cause no difficulty.

[3] In fact, more simply than before; for he would have been spared the awkwardness of differentiating a function of $\frac{x_r}{x}$.

[4] ECONOMIC JOURNAL, June 1932, p. 325.

(in accordance with Mr. Allen's arbitrary assumption). In fact, Mr. Allen ought to have written down the same inequality which Mr. Harrod, "proceeding on the lines of Mr. Allen's argument," [1] wrote down three months later as being derived from Mr. Allen's own treatment. And instead of concluding that $-F_r'(x_r) < \frac{1}{xx_r}\phi_r'\left(\frac{x_r}{x}\right)$, Mr. Allen would have arrived at the condition that

$$-F_r'(x_r) < \frac{1}{xx_r}\phi_r'\left(\frac{x_r}{x}\right) - \frac{1}{x_r^2}\phi_r\left(\frac{x_r}{x}\right);$$

or, in other words, that

$$-\frac{\partial F_r(x_r)}{\partial x_r} < \frac{\partial}{\partial x_r}\left\{\frac{1}{x_r}\phi_r\left(\frac{x_r}{x}\right)\right\}.$$

But this is merely the mathematical expression of Mr. Harrod's common-sense conclusion. It would have caused Mr. Harrod no perturbation; indeed, instead of feeling obliged to invent a special case in order to demonstrate that his conclusion was not always wrong, he would have been reassured to find that mathematics was capable of verifying in one particular instance the validity of his general proposition.

So much for the Higher Mathematics. We may now return to the orthodox route, which is more direct and at the same time less treacherous. Under the conditions of perfect competition that are being postulated, a firm's marginal cost is equal to the price of the product. If the firm is earning a positive profit, the price must exceed its average cost. It follows that its marginal cost exceeds its average cost, and so, by a familiar principle, that its average cost must rise as its output increases. We now divide the firm's costs into two categories :—*non-marketing costs* and *marketing costs*. And thus we obtain Mr. Harrod's rule that if average non-marketing cost is falling as the firm's output increases average marketing cost must be rising at an equal or a greater rate.

But it must be understood that no particular mystery attaches to this segregation of marketing costs into a separate category. We may divide up total costs in any way that takes our fancy, and the same rule will apply. Thus, following Mr. Robinson, we might divide a firm's costs into *technical costs* and *managerial costs*, and it will then follow that if average technical cost is falling average managerial cost must be rising at an equal or a greater rate (for a firm in equilibrium that is not making a loss).

[1] ECONOMIC JOURNAL, September 1932, p. 491.

But Mr. Harrod has, of course, a definite purpose in separating out the marketing costs. The point made by Mr. Harrod is that marketing costs depend not only on the output of the firm but also on the output of the industry: the marketing cost of a given output falls as the demand for the industry increases. In other words, Mr. Harrod has discovered a very beautiful example of *external economies.*[1] Now in the ordinary case of full equilibrium (with normal profits), any degree of external economy, no matter how small, is adequate to provide conditions of falling supply price to the industry. And if Mr. Harrod had been discussing *full* equilibrium he would have concluded that the mere existence *per se* of these marketing costs was sufficient to explain the phenomenon of falling supply price to an industry, quite independently of whether or not it was accompanied by conditions of falling *non-marketing* cost to the individual firm. But Mr. Harrod was not discussing full equilibrium. He appears rather to have in mind the case where the number of firms is fixed. Now if the number of firms is fixed and there are no external economies, conditions of *increasing* supply price must necessarily prevail—for marginal costs are rising. In order that supply price shall be falling for the industry it is not sufficient that some external economies shall be attainable, but the economies must be of a sufficient magnitude. What Mr. Harrod has done is to determine the condition for falling supply price when the economies are exhibited by his marketing costs. By an ingenious argument he has demonstrated that the condition for falling supply price to the industry is the existence of falling non-marketing cost to the individual firm.[2]

But there is a fundamental difficulty about Mr. Harrod's treatment that remains to be discussed. Is it legitimate to ascribe

[1] If the marketing costs depend on *the state of demand* as well as on the industry's output and if the industry's output is not uniquely determined by the state of demand, the economy is of a less simple type than that usually considered (cf. footnote above).

[2] ECONOMIC JOURNAL, December 1931, p. 569. Mr. Harrod bases his conclusion on the assumption that the marginal marketing cost of selling in a given "sphere of influence" is independent of the output sold in the firm's territory. But when aggregate demand expands (so that the output sold by a firm in its own territory increases), the density of demand on its frontier becomes greater. It follows that the firm does not have to push back its frontier as far as before in order to sell an extra unit of output, and consequently marginal marketing cost is less than before. Mr. Harrod seems, therefore, to be somewhat understating his own case: conditions of falling supply price to an industry are actually compatible with the existence of rising non-marketing cost to the firm, provided that the rise is sufficiently gradual.

conditions of perfect competition to an industry which is subject to Mr. Harrod's marketing costs? Surely the very fact that these marketing costs are incurred demonstrates that the market is imperfect? The assumption made by Mr. Harrod, and by Mr. Allen,[1] that the demand for the individual firm is perfectly elastic is hard to reconcile with Mr. Harrod's statement that "any attempt to push out into the competitor's territory is attended with rising marketing costs per unit of sales."[2] If a firm can increase its sales to any desired extent by an infinitesimal reduction of its price, why should it go to the expense of incurring Mr. Harrod's marketing costs?[3]

But this is a criticism of Mr. Harrod's method of exposition, and still more of Mr. Allen's more rigid treatment, and it does not really affect the importance of the results. The *economy of large-scale industry* which marketing costs provide is just as important in an imperfect market as it would be in the hypothetical case of a perfect market. All that it is necessary to do is to effect a reconciliation between Mr. Harrod's account of what *would* happen in a *perfect* market if there *were* marketing costs with an account of what would happen in an *imperfect* market when there are no marketing costs.

R. F. KAHN

King's College,
Cambridge.

OFFICIAL PAPERS

The Road–Rail Conference Report.[4]

IN order to settle many questions in dispute between the railway companies and the owners of road motor goods waggons the Minister of Transport appointed a Conference consisting of four railway managers and four representatives of road organisations, with Sir Arthur Salter as Chairman. Within a few weeks the Conference agreed on a unanimous report, which may be regarded

[1] Mr. Allen admits the necessity for excluding *advertisement charges* from Mr. Harrod's marketing costs (ECONOMIC JOURNAL, June 1932, p. 324, note), but I cannot see any relevant difference between "advertisement charges," on the one hand, and, on the other hand, Mr. Allen's "transport charges and, perhaps, a few other items."

[2] ECONOMIC JOURNAL, December 1931, p. 567.

[3] Cf. Pigou's *Economics of Welfare*, p. 198, note.

[4] *Report of the Conference on Rail and Road Transport*, 29th July, 1932. H.M.S.O. 1s. 3d. net.

as one of the most valuable statistical documents published in recent years. Its recommendations, if adopted by Parliament, as one may expect, promise (1) additional revenue to the Chancellor of the Exchequer, (2) lower expenditure to county and borough councils, and (3) rehabilitation of their finances to the four great railway groups. Further, the report is the first scientific discussion of the principles which should be applied to the taxation of road motor vehicles, a subject strangely neglected hitherto by the House of Commons and the Ministry of Transport. Of course a unanimous report must have involved compromise, but unanimity has been secured by facing difficulties and getting down to facts, not by avoiding them. Indeed more than half this slim volume of 85 pages is taken up by elaborate calculations and statistical tables. In one direction the report continues and completes the work of the Royal Commission on Transport, but the Conference was concerned with goods transport only, although its recommendations, especially those dealing with the basis of taxation, certainly involve (as Section 134 admits) a revision of the contributions to be made by other classes of vehicles, such as the heavier kind of coach or omnibus.

Three questions were set to the Conference by the Minister of Transport:—(*a*) the contributions towards the cost of roads which are made, or should be made, by the different classes of motor vehicles; (*b*) the regulations that should be applied to goods transport by road and rail; and (*c*) measures which may equalise conditions between the two sides of the goods transport industry, with adequate safeguards for the community. The Conference did not invite witnesses either from the transport interests or from highway authorities, but it received and considered written statements.

As a result of the development of the petrol engine our roads are now predominantly used by motor vehicles. These have caused additional travelling and goods transport; they have also diverted much traffic from the railways. In some cases the road is intrinsically more suitable, *i.e.* it is more convenient, or it is really cheaper when every allowance for full cost is made. But where the commercial motor does not pay its fair share of road costs, or is free from the restrictions imposed by Parliament on the railways, "some of this diversion may be both economically unsound and socially undesirable." A calculation on p. 10 gives £64 million as the annual cost of railway tracks, all of which falls on the railway shareholder. On the basis of actual expenditure during the last five years the Conference reckons the expenditure

on roads, *i.e.* on the motor vehicle's permanent way, at £60 million a year; and this is the figure which it proceeds to allocate between the various classes of motor vehicles. Railway rates, it is well known, are not based on the "cost of service," but on "what the traffic can bear," just as a doctor charges a higher fee to his richer than to his poorer patients. If road vehicles skim the cream off a railway's traffic, leaving it with the heavy and bulky goods which pay a low rate per ton, the railway may have to raise its rates for such traffic, thereby throwing a new burden on our depressed heavy industries.

Roads are used by others than motor drivers, who make no payment for them except through rates and taxes; this may be called the "community use." Then again, there is the "legacy from the past" in the shape (1) of the road system existing before the motor era, and (2) of the heavy capital expenditure in road improvements during the present century. Neither value can be calculated even roughly, so the Conference has agreed to treat the two as cancelling each other. Policing and recoverable expenditure are also taken as cancelling each other, so we are left with the sixty millions a year.

What is the best basis for a distribution of this sum among various classes of motor vehicles? Petrol consumption is evidently one factor, and gives a measure of the use and wear of the roads by vehicles of the same type, but it does not serve so well for different classes; a second criterion is ton-miles. Finally, the Conference decided to combine petrol consumption with ton-mileage, and to add something extra for very heavy vehicles. A combination of these factors, worked out in the statistical tables at the end, allots £23,848,000 to commercial goods vehicles and £36,152,000 to all other mechanically-propelled vehicles. But a further correction is made for speed and the unlimited franchise of the road permitted to passenger vehicles, so the final allocation is £23½ million to commercial goods vehicles, and £36½ million to all the rest.

Next the Conference considers how the £23½ million should be divided among different kinds of goods vehicles. The report says sharply that "the present basis of contribution is obviously in certain respects obsolete and inadequate." Vehicles driven by steam, electricity, or fuel oil (and, I may add, town gas) escape the petrol duty. Again, the scale of licence duties increases with tonnage, but *stops* at 5 tons unladen! This is an anomaly which the Conference is particularly anxious to abolish, since it "gives a preferential advantage to just that type of vehicle which our

evidence shows to involve disproportionately high road expenditure." Why is it, one may ask, that the Ministry of Transport and the Treasury have allowed this anomaly to continue for so many years at the taxpayer's expense? Scales of licence duty are put forward for the various classes of vehicles. Farmers will pay least, with £64 instead of £25 for a $9\frac{1}{2}$-ton petrol lorry, and £132 for a steam-driven lorry. Showmen will pay £98 instead of £30 for a petrol lorry weighing $9\frac{1}{2}$ tons, and £156 for a steam-driven lorry.

Ordinary users will find their duties rising sharply after 3 tons; the duty doubles for a $5\frac{1}{2}$-ton petrol lorry and rises to £282 (hard-tyred) and £226 (pneumatic) for $9\frac{1}{2}$ tons against £60 and £48 at present. Vans and lorries which escape the petrol duty will in future pay very steeply-graded licence duties. Even the smallest Diesel oil or steam-driven vehicle will pay about double, while the $9\frac{1}{2}$-ton lorry will pay £388 (hard tyres) if driven by heavy oil, and £212 if driven by steam. Tractors, which may draw three trailers as big as lorries, get off rather cheaply with £155 instead of £50 for 9 tons petrol-driven, or £275 if steam-driven. All other vehicles may draw one trailer on paying £16 instead of the present £6. Does not this last provision offer a loophole of escape from the increased duties on the heaviest vehicles? Electric vehicles are not very numerous or important, they are asked to pay about three times as much as at present.

On the basis adopted by the Conference private cars and motor cycles would pay less than at present, but the Conference does not use this fact to relieve the charges falling on commercial vehicles. As a concession to the railways, the Conference would relieve them of two obligations: (1) to maintain road surfaces of bridges carrying roads over railways, and (2) to publish rates in regard to their regular road transport services, so long as no similar obligation rests upon hauliers in general.

This brings us to the third part of the Report—regulation and licensing. Railways are subject to "an extensive and often meticulous system of regulation and supervision," which covers not only rates but wages and conditions of work. Here the Conference would rather impose restrictions upon road vehicles than relax them on railways. It would make motor owners observe proper conditions as to wages and work, and also as to the fitness of their vehicles. Next it would have separate licences for "hauliers," who convey the goods of others, and for "ancillary users," who carry their own goods or materials. Ancillary users would be prohibited from carrying any other goods than their own

whether for reward or reciprocal service, except as regards vehicles licensed only within a radius of ten miles.

New restrictions are proposed on the analogy of those already applied to coaches. The licensing authority may refuse a " haulier's " licence (but not an " ancillary " user's) if it thinks the existing facilities adequate or if it fears road congestion. Evidently the Conference looks forward to more co-operation not only between railways and road organisations, but between these two and traders or merchants, so that the latter would " resort more to them and less to the employment of vehicles of their own," Power should be given to exclude any vehicles from roads which are not constructed to bear their weight.

As a general principle the Conference agrees with the Royal Commission on Transport, that it is " not in the national interest to encourage further diversion of heavy goods traffic from the railways to the roads " ; it also agrees that the Minister of Transport should be authorised to prohibit, in future, the transfer of unsuitable traffic to the roads. But clearly the Conference relies for a fairer distribution of traffic between the two parties on its increased licence duties, which are to be paid for the heavier road vehicles. In other words, if railways and road vehicles have to pay their own expenses, traffic will go by the service which is really the cheaper. Nevertheless, the Conference hopes also for a better division of function " through the deliberate effort of those engaged in road and rail transport to co-ordinate their services." And again (Section 129), it hopes that hauliers and railways will so organise their services " that in collaboration they can attract the public to resort to them for all classes of traffic in which large-scale organisation has great advantages."

At the end of the report will be found elaborate statistical calculations, on which the proposed licence duties are based. These explain why the new scales given in the body of the report do not increase symmetrically. Why, one may ask, should Government vehicles be exempt from licence duty, if the duty is meant to be a payment for the permanent way without which the vehicle would be useless? If they do not pay, they are just as much subsidised as if the wages of their drivers and mechanics were paid by the county councils. Essays might be written on the question—How far should the licence and petrol duties paid in respect of road motor vehicles be regarded as taxation and how far as payment for facilities provided by local authorities?

J. E. ALLEN

Guide to Current Official Statistics. Vol. 10. Pp. 257. (H.M.S.O. 1*s.*)

Each year sees the publication of a wide range of Government surveys, returns and reports on all kinds of subjects of international, national or local importance. Hundreds of these contain statistics which are constantly needed by persons engaged in the study of some question on which authoritative information is essential. In the absence of a systematic index to this vast store of statistical material, the individual inquirer would find it very difficult to discover which official publications contained precisely the information he required. The necessary clue is provided by the annual *Guide to Current Official Statistics*, which contains not only a list of the titles and prices of the statistical volumes issued by each Government Department, but also an alphabetical index of their contents, with particulars of the degree of detail in which the subject is treated and the time and place to which the statistics relate. *Volume Ten* of this Guide has just been issued, and may be obtained direct from the sale offices of H.M. Stationery Office or through any bookseller.

OBITUARY

William Pember Reeves, 1857–1932

William Pember Reeves was born in Christchurch, New Zealand, in 1857, within the first decade of the Canterbury Settlement. Although the physical environment was crude—Christchurch was not then the pleasant English-seeming town it has since become—Reeves grew up in a vigorous intellectual atmosphere. The pioneers of the Canterbury settlement were uncommon men and women, and Christ's College and Canterbury College, where Reeves attended some lectures, were in the first flush of their early enthusiasm. Throughout a varied career, Reeves was greatly influenced by this early environment. The variety of his interests and avocations developed naturally from the life of the small community in which he played a significant part. He represented Canterbury at cricket and Rugby football, wrote amusing political verse and some of the best poetry New Zealand has yet produced, and followed keenly the socialist thought that ran through much of the literature of his youth. Never a systematic economist, he drew his social philosophy

primarily from literature and from the experimental environment of a young country.

It is probable that his name will always be linked with certain State experiments in the field of labour relations, and particularly with the principle of compulsory arbitration in labour disputes. But the arbitration system, which he himself regarded as an experiment, was only part of his political programme, as his political interests were only part of his life-work. He was a successful journalist before he became a politician, and, as first Director of the London School of Economics, and later as Chairman of the National Bank of New Zealand, he was conspicuously successful in widely different spheres of activity. Indeed his strength lay largely in the variety of his interests. While he was still High Commissioner for New Zealand in London he was active in the Fabian Society and several early tracts bear obvious marks of his handiwork. His interest in Near Eastern affairs won him an honorary degree at Athens and a Greek order. Besides his sociological books he continued to write verse of a high standard and he was one of the most acceptable after-dinner speakers in London.

His contributions to economics lie in the sphere of practical experiment and accurate description and in the broadening of the field of economic and political education rather than in systematic theory. The apparent success of the New Zealand experiments in State Socialism in the 'nineties came opportunely for the vigorous Socialist movement of that time. Reeves was not only the chief inspiration but the recognised expositor of these experiments. It is interesting to speculate what influence his arrival in London in 1896 had upon economic thought in Great Britain and particularly upon the intellectual allies of the Labour Party. As Director of the London School of Economics and Political Science for the first twelve years of its existence and a Senator of the University of London for an even longer period, his influence naturally lay in the direction of linking theoretical teaching with practical affairs. The co-ordination of the other social sciences with economics, the fostering of studies in applied economics, and the encouragement of overseas students are perhaps distinctive marks of his influence.

His practical experiments on the whole have worn well. The lapse of time places them in truer perspective. Reeves was never a doctrinaire Socialist. It is doubtful whether Marx ever meant much if anything to him. He was never even a member of the Labour Party, but always remained a Liberal and follower

of the principles laid down by that true Gladstonian, Sir George Grey, the pioneer of liberal thought in New Zealand. Reeves' Socialism, from the publication of his first articles in the *Lyttelton Times*, was always of the Utopian variety, drawn from More, Campanella and ultimately Plato. It was indeed derived from a humanist outlook, and in Reeves' mind, his work as Minister of Education, and of Justice, ranked at least equally with his experiments in State Socialism. In the field of labour relations he built up a code of factory legislation that was a model in its day and he made equal contributions to land settlement and taxation, rural credit and co-operation. Though these were fields in which he was not technically expert, it was his philosophy that lay behind the Liberal Labour programme in the 'nineties. A later New Zealand, which has profited materially by his broad vision, tends to concentrate criticism (somewhat doubtfully) upon the arbitration experiment and forget his humanist outlook.

His economic writings bear all the marks of careful workmanship. *The Long White Cloud* took its place immediately as an authoritative and brilliantly written social history of his native land, while *State Experiments in Australia and New Zealand* remains the authoritative technical exposition of the State Socialist experiments. His descriptions of experimental legislation were written from inside knowledge by one who more than any other saw them as logical parts of a consistent programme. A hyper-critic may occasionally detect the fact that inside sources of information and "close-up" views do less than justice to some of the external forces at work outside official circles; but Reeves as an author was remarkably detached from Reeves as a statesman. Since by far the greater part of the information given in successive volumes describing New Zealand economic life in the 'nineties was derived directly or indirectly from him, his modesty and detachment have tended to obscure the real importance of his statesmanship. He wrote not only with distinction and charm of style but with great care. In the final edition of *The Long White Cloud*, in particular, he lavished much care on the pen-portraits of the men he had known, so that the book became not only a classic description of social progress but also a dictionary of national biography.

To younger men his generosity and courtesy never failed. No trouble was too great and no demand too difficult. Those who worked after him came to realise that his strength lay not only in the charm and urbanity with which he moved easily from a frontier community to metropolitan life, and his unusual

combination of learning, wit and practical shrewdness, but in the depth and sincerity of his humanity. He did not parade his passion for social reform in the truest sense of that vague phrase, but it lay behind all his thought and activity.

J. B. CONDLIFFE

SIR BERNARD MALLET

SIR BERNARD MALLET, who died on October 28th, at the age of 73, came of a family with a tradition of service to the State and of interest in economic studies; thus his grandfather held a post in the Audit Office and was a friend of Ricardo, while his father was Permanent Under-Secretary of State for India. These traditions were upheld by Bernard Mallet, who entered the Foreign Office in 1882 and was subsequently transferred to the Treasury. He was made a Commissioner of Inland Revenue in 1897 and Registrar-General in 1909, which latter post he held until his retirement in 1920.

His official duties brought him into touch with economic problems and, like his father and grandfather before him, he was a member of the Political Economy Club. For a great many years he was secretary of this club, and in a remarkable degree the centre of its activities. From 1916 to 1918 he was President of the Royal Statistical Society. It was during his tenure of the office of Registrar-General and with his active encouragement that the late Dr. Stevenson, his chief assistant, carried out the admirable investigations into differential fertility which have placed this country in a leading position in the study of that difficult and important problem. Moreover, it fell to him to perform during the war certain additional tasks, such as the national registration of 1916, all of which were admirably accomplished, and in recognition of which he was created K.C.B.

After his retirement Bernard Mallet took an active part in various movements designed to promote the study of, and arouse interest in, population problems. He was President of the World Population Conference held at Geneva in 1927, as a result of which the International Union for the Scientific Investigation of Population Problems was inaugurated. In 1928 he became President of the Eugenics Society and held that post at the date of his death. No more appropriate President could have been chosen, since, as related above, it was in part due to him that data on a large scale relating to differential fertility are available. The Society was enabled to extend its activities during his tenure

of office as the result of a considerable legacy, and was wisely guided by him in the difficult task of propaganda to which it has addressed itself. It was during his tenure of office, for example, that the Society became actively interested in sterilisation. In addition to various papers on eugenics, population and allied problems, he published two volumes on British budgets, a life of his father and a work called *Mallet du Pan and the French Revolution*; Mallet du Pan was Sir Bernard's great-grandfather who was driven into exile during the French Revolution.

Sir Bernard Mallet was a man of wide culture and remarkable charm; his invariable courtesy and desire to help will always be remembered by those with whom he came in contact. His desire was to relate existing knowledge to practical problems, and in the last ten years of his life he used his admirable tact to further movements in fields where good judgment is tried to the utmost. His help, advice and experience did much to guide these movements into profitable channels, and his loss will be widely felt.

A. M. CARR-SAUNDERS

CURRENT TOPICS.

THE following have been admitted to membership of the Royal Economic Society :—

Abdin, M. M.
Ackroyd, Miss D. E
Allin, R. C. S.
Antoniades, D.
Ayres, L. P.
Barnes, P.
Barron, S. L.
Barton, C. M.
Bayley, C. T.
Beasley, H. A.
Bedding, T. G.
Beer, F. Tidbury.
Benn, S. E.
Bennett, J. H.
Bernstein, I.
Berry, Ralph W.
Biddle, F. H.
Birla, G. D.
Blenkinsop, A.
Bohn, Dr. F.
Brock, W. W.
Browne, H. C.
Bunce, F. M.
Carnwath, T. D.
Cass, W. G. L.
Chapman, R.
Cheeseman, F. A.
Choudhury, S. N. M.
Chown, J.
Cohen, L.
Compton, M.
Cowan, M. H.
Crawford, H.
Cross, M. F.
Currie, R. M.
Dalal, R. M.
Davies, A. H.
de Stoop, Dr. J. J.
Dodwell, J.
Douglas, C. L. M.
Dow, D. J.
Dreyfus, C. H.
Dutschler, Dr. E. W.
Earl, J.
Egan, F.
Eke, L. L.
Entwistle, H.
Evans, E. R.
Farey, S.
Farmer, E.
Farquharson, J. R.
Fattet, P.
Ferguson, H. S.
Forrest, B. A.
Fourie, P. S.
Gay, Prof. E. F.
Gholap, L. T.

Gibson, J.
Gladwyn, E. J.
Goldstein, Dr. R. F.
Goodwin, R. A.
Greenwood, E. A.
Harrison, C. T. H.
Harvie, C. H.
Hawkes, J. A.
Haynes, F. H.
Herzog, F.
Hill, N. K.
Hinchliffe, H. F.
Ho, S. F.
Hodgkins, Rev. W.
Hohe, Hubert G.
Horsefield, J. K.
Howell, R. W.
Humphrey, A. W.
Hussain, Syed S. A.
Hussey, H. G. L.
Jameson, G. B., M.C.
John, Miss Anna.
Johnson, N. O.
Jones, N. H.
Kakar, S. R.
Kavi, A. V. S.
Kellogg, Lester S.
Kirkland, J.
Knight, S. L.
Laird, T.
La Mothe, H. S.
Landman, Dr. J.
Leary, John J., Jr.
Leonard, C. S. K.
Leontief, W. W.
Letham, A.
Lockwood, T. H.
McDonnell, D. A.
McGraw, B. Tanner.
Machlup-Wolf, Dr. F.
McMillan, D. G.
Marar, T. B.
Mark, T.
Marsh, R. E.
Marshall, E. R.
Marshall, J., Jr.
Massey, P. H.
Master, P. D.
Mavrocordato, N. I.
May, H. J.
Mees, A. A.
Meredith, James D.
Mills, F. C.
Mills, N. F.
Mints, Prof. Lloyd W.
Mohanna, Abdel A.
Mohbell, M. Ahmid.
Moore, L. P.
Moran, W. A.
Mozammil, M.
Mukerji, Bimol.
Munn, Prof. B.
Munro, R. D.
Murphy, E. W.
Nash, Walter, M.P.
Neil, J.
Niven, A. McL.
Nursey, A.
Nuttall, W.
Oka, G. M.
Olander, V. A.
Otto, E. A.
Ottolenghi, Dr. Mario.
Owen, J.
Palmer, E. J.
Penman, E. H.
Phillimore, J. G.
Phillips, P. E.
Potter, S. A.
Price, R. A.
Raghavachari, K. S.
Ramaswamy, S. V.
Rao, M. K.
Rastogi, Sidh G.
Reid, Miss Ruth C.
Rew, Rev. H. G.
Rhodes, G. T.
Rifaat, M. Ali.
Riley, E. W.
Roach, Miss Gladys M.
Roberts, W. G.
Robertson, A. S. M.
Robertson, E. A.
Roddis, R. J.
Roll, M.
Roy, Dilhag.
Roy, Dr. S. C.
Samtani, R. C.
Sanderson, D. C. D.
Sankpal, G. M.
Satyanandam, Prof. P.
Schipper, J. H. T.
Schlauch, Prof. W. S.
Scott, F. S.
Shah, S.
Sheikh, E. B.
Shelton, F. W.
Shewhart, Dr. W. A.
Silvester, W. P.
Sinnott, E.
Smith, W. V.
Somerville, H.
Spencer, R. W.
Stewart, W. D.
Swarup, D.
Taylor, L. H.
Thomas, P. S.
Thomas, R. C.
Thompson, K. P.
Thornton, A. E.
Thorp, T. C.
Tippetts, Prof. C. S.
Tipping, J.
Tobilcock, D. H.
Tugwell, A. W.
Twohy, Miss A. L.

Tyler, H. W. G.
Tyler, S. T.
Unwin, Dr. J. D., M.C.
Vecchio, Prof. G. Del.
Vincent, E. S.
Wallace, A.
Warren, E. C.
Weiman, C. F.
Welingkar, L. N.
Wells, P. W.
Whatmore, A. H.
White, J. B.
Whittingdale, T. Y.
Whittingham, C.
Wigley, P. H.
Williams, G. Prys.
Williams, K. E.
Williams, S. W.
Williams, W.
Withington, J. H.
Withrington, J. W.
Woodhead, H.
Wright, E. K.
Wylie, H.
Yap, P. G.
Young, F. B.

The following have been admitted to life membership of the Society :—

Angus, W. N.
Barger, H.
Barr, G. M.
Boulding, Kenneth Ewart.
Davy, J. J.
Driver, Pesy Nasserwanji.
Fleming, J. S. B.
Fraser, W. H.
Frisch, Professor Ragnar.
Fritz, Wilbert G.
Gabrieli, Haim.
Jennings, H. Lincoln.
Kennerley, John.
Kozelka, Richard Louis.
McLaughlin, G. E.
Martin, C. E.
Nicholls, Reginald Evelyn.
Pinnick, Alfred William.
Rist., Prof. Charles.
Robinson, William Sydney.
Rodano, Dr. Carlo.
Sartain, Wilfred James.
Schultz, Theodore W.
Shirname, Dr. T. G.
Thompson, G.
Unwin, Stanley.
Viccajee, V. F.
Wilton, E. G.

The following have been admitted to Library membership :—

Amsterdamsche Kring Van Economen.
Baillies Institution, Glasgow.
Central Public Library, Wigan.
Chamber of Commerce, Paris.
Cockfield, Brown & Co., Ltd., Montreal.
Columbia University.
Comptroller of the Treasury, Ottawa.
Economics Dept., Ontario Agricultural College.
Horace Plunkett Foundation.
New Fabian Research Bureau.
Pasadena Public Library.
Plymouth Public Libraries.
Seaton Hall College Library, New Jersey.
Yenching University, China.

With reference to the Note which appeared in the September number of the JOURNAL, pp. 503–4, on Dr. Eisler's *Money Maze*, Prof. Cannan states that Dr. Eisler has since written to him explaining that it was a mistake for which Dr. Eisler himself was not responsible which led to the reprinting of an article by Sir J. Stamp as a preface to the *Money Maze* and without a note saying that it had already been published and was not written for the book.

The Annual Conference of the Association of University Teachers of Economics will be held at Bristol during the week-end January 6–9, 1933. Particulars will be forwarded to members of the Association early in December. Intending new members are invited to apply to the Hon. Secretary, Mr. Stanley Parris, University College, Cardiff.

The Fourth Annual Meeting of the Canadian Political Science Association was held at Toronto May 1932. The Papers and Proceedings are published as Volume IV of the Association's Transactions. The general topics discussed were *Unemployment*; *Current Problems of Political Science*; *Currency Problems*; *Transportation Problems*. In addition, Round Tables met on *Public Finance*; *Combines and Public Policy*; *Planned Economy*; *The Party System in Canada*. The report of the Proceedings is in excellent form, and should prove of value, as a work of reference, to students of economics and politics in this country.

The first issue of *Econometrica*, the Journal of the Econometric Society, will appear in January 1933, under the Editorship of Professor Ragnar Frisch. The Econometric Society is an international Society for the advance of economic theory in its relation to statistics and mathematics, which has been recently founded with the collaboration of leading economists all over the world, largely through the energy of Professor Irving Fisher. The first issue will include, amongst many other articles, a contribution from Professor Schumpeter entitled "The Common Sense of Econometrics."

We hope that all members of the Royal Economic Society, who are interested in the pure theory of the subject, will join this new Society and secure its Journal. Inquiries should be

addressed to Mr. Alfred Cowles, Colorado Springs, Colorado, U.S.A., from whom all particulars can be obtained.

Three further volumes have been issued in the London School of Economics Series of Reprints of Scarce Tracts in Economic and Political Science. They are, No. 12. *Co-ordination of the Laws of Distribution*, by Philip H. Wicksteed; No. 13. *Wages and Capital*, by F. W. Taussig, for which the author has kindly written a new preface, and No. 14. *Tours in England and Wales* (selected from the *Annals of Agriculture*), by Arthur Young. These volumes are being published at 5*s*., No. 12, and 7*s*. 6*d*. each Nos. 13 and 14, but they are available to members of the Royal Economic Society at a reduced price of 3*s*. 6*d*., No. 12, and 5*s*. each Nos. 13 and 14.

RECENT PERIODICALS AND NEW BOOKS

Journal of the Royal Statistical Society.

Vol. XCV, Part III. *Lancashire and the Indian Market.* A. R. BURNETT-HURST. *Live-stock By-products and By-product Industries.* G. R. WHITE. *Recent Advances in Mathematical Statistics.* J. O. IRWIN. *The Independent Worker and the Small Family Business: a study of their importance on Merseyside.* H. J. H. PARKER.

Vol. XCV, Part IV. *The Overseas Trade of the United Kingdom,* 1924–31. H. W. MACROSTY. *Industrial Profits in the Past Twenty Years. A new Index-Number.* SIR J. C. STAMP.

Economica.

AUGUST, 1932. *The Liquidity of Short-term Capital.* F. MACHLUP. *Marginal Productivity and the Lausanne School.* H. SCHULTZ and J. R. HICKS. *The Diagrammatic Representation of Cost Conditions in International Trade.* A. LERNER. *Decasualisation of Dock Labour at the Port of Bristol.* W. H. WHYTE.

The Economic Record.

MAY, 1932. *Economic Aspect of Empire Tariff Preference.* H. R. RODWELL. *Farm Overhead Charges in New Zealand.* I. W. WESTON. *The Unemployment Problem in Germany.* E. R. WALKER. *Bulk Handling of Wheat in Australia.* F. S. ALFORD. *The Transport Situation in New Zealand.* H. B. SMITH. *Age Distribution of Australian Population.* H. J. EXLEY. *The New Zealand Economic Problem.* A. G. B. FISHER and D. B. COPLAND.

Journal of Proceedings of the Agricultural Economics Society.

Vol. II, No. 1. *The Adjustment of Agriculture to Industrial Rationalisation.* D. H. MACGREGOR. *A Farmer's Interpretation of Agricultural Accounts.* W. G. COATES. *Some Aspects of Meat Distribution and Consumption.* ARTHUR JONES. *A Contribution to the Study of Occupational and Residential Mobility in the Cotswolds,* 1921–31. M. A. ABRAMS.

Vol. II, No. 2. *The Government and Agricultural Marketing.* F. J. PREWETT. *The Political Economy of Agriculture.* JOSEPH DUNCAN. *Some Aspects of Demand and Consumption in Relation to Marketing Studies.* R. B. FORRESTER. *The Position of the Sheep Enterprise.* A. G. RUSTON.

Quarterly Journal of Economics.

AUGUST. 1932. *The Theory of International Values.* F. D. GRAHAM. *Suggestions from Workers: Schemes and Problems.* Z. C. DICKINSON. *The North Atlantic Port Differentials.* R. W. HARBESON. *Studies in Demand: Milk and Butter.* E. W. GILBOY. *Unemployment and Consumption: the Mercantilist View.* E. A. J. JOHNSON.

Harvard Review of Economic Statistics.

AUGUST, 1932. *Gold Production and Consumption.* J. KITCHIN. *The Harvard Index*, 1919–31. C. J. BULLOCK and W. L. CRUM. *General Economic Conditions: Indexes and Selected Statistical Data.* (Editorial.) *Review of the Second Quarter of the Year.*

American Economic Review.

SEPTEMBER, 1932. *Control of the Capital Market.* R. WEIDENHAMMER. *Plight of Foreign Trade.* W. A. SOLLOHUB. *Wisconsin Unemployment Compensation Act.* E. E. MUNTZ. *Correctives of the Exchanges.* J. D. MAGEE. *Providing Homes for the People.* J. P. MURCHISON. *International Labor Organisation.* C. J. RATZLAFF. *A Fundamental Error in Keynes' "Treatise on Money."* A. H. HANSEN.

Journal of Political Economy.

AUGUST, 1932. *The Newer Economics and the Control of Economic Activity.* F. H. KNIGHT. *The Relation between the Velocity of Circulation of Money and the "Velocity of Circulation of Goods" (contd.)* A. W. MARGET. *Time and Capitalistic Production.* E. THEISS. *Consumption and Unemployment.* D. W. DOUGLAS.

Journal of Economic and Business History.

AUGUST, 1932. *Trends in American Business Biography.* K. W. PORTER. *The Business of Art.* G. A. BENEKER. *The International Steam Pump Company.* M. J. FIELDS. *The Wedgwoods: ten Generations of Potters.* R. M. HOWER. *England in the Age of Mercantilism.* E. LIPSON. *The Study of Mediæval Economic History in Italy.* G. LUZZATO. *Foreign Commerce of Ptolemaic Egypt.* M. ROSTOVTZEFF.

(Supplement.) *West Riding Trade Protective Association.* H. HEATON. *The Rise and Early Development of the Industrial Consciousness of the U.S.A.*, 1760–1830. S. REZNEK. *Commercial Relations between Nantes and the American Colonies.* G. MARTIN. *The Rope Factory and Hemp Trade of Venice in the Fifteenth and Sixteenth Centuries.* F. C. LANE. *Wholesale Prices at Charleston*, 1796–1861. G. R. TAYLOR.

Annals of the American Academy of Political and Social Science.

JULY, 1932. *National and World Planning.* (*Can Capitalism Plan? Illustrations of Plans. Methods of Planning. Planning against Unemployment by Public Works.*) By various authors.

SEPTEMBER, 1932. *Prohibition: a National Experiment.* (*Historical and Comparative Studies of the Liquor Question.*) By various authors.

Wheat Studies.

(Food Research Institute, Stanford.)

SEPTEMBER, 1932. *Survey of the Wheat Situation, April to July*, 1932. The coming crop year now promises to be another of burdensome wheat surplus and very easy international position. Conditions now appear unfavourable to substantial, sustained advances in world wheat prices.

International Labour Review.

JULY, 1932. *Albert Thomas.* H. B. BUTLER. *Under-consumption as a Factor in the Economic Cycle.* M. ANSIAUX. *The Organisation of Public Works and other Measures for the Relief of Unemployment in Sweden.* E. G. HUSS. *The Standard Working Week in Australia.* O. DE R. FOENANDER.

AUGUST, 1932. *World Economic Reconstruction.* P. W. MARTIN.

SEPTEMBER, 1932. *An International Enquiry into Living Costs.* H. STAEHLE. *The Standard Working Week in Australia (contd.).* O. DE R. FOENANDER. *The Collectivisation of Agriculture in the U.S.S.R.*

OCTOBER, 1932. *An Attempt to construct International Measures of Employment.* J. LINDBERG. *The Status of Professional Workers in the Chemical Industry.* M.-T. NISOT. *Vocational Guidance in Australia in* 1932. G. R. GILES. *The Participation of Employers and Workers in International Economic Activities.*

Kyoto University Economic Review.

JULY, 1932. *State Monopoly as a Method of Taxing Consumption.* M. KAMBE. *Income Tax Rates in Japan.* S. SHIOMI. *From the Tokugawa Period to the Meiji Restoration.* E. HONJO. *An Examination of Cassel's Quantity Theory of Money.* K. SHIBATA. *A Study of the Cost of Rice Production.* Y. YAGI. *General Tendency to promote the Elimination of Merchants.* K. TANIGUCHI. *Macht und Wirtschaft.* Y. TAKATA.

Index (Stockholm).

AUGUST, 1932. *The World's Staples.* XV. *Tin.* P. HÖVIG.

SEPTEMBER, 1932. *Sweden's Monetary Policy.* B. OHLIN.

OCTOBER, 1932. *Geneva in Retrospect.* SIR A. SALTER.

Skandinaviska Kreditaktiebolaget.

OCTOBER, 1932. *A Contribution to Characterisation of the Crisis.* G. CASSEL.

Indian Journal of Economics.

JULY, 1932. *The Stabilisation of Silver.* B. R. RAU. *The Power of Banks to create Capital for Industry.* S. R. BOSE. *Recent Changes in Commercial Banking Practice.* S. K. BASU.

Revue d'Économie Politique.

MAY–JUNE, 1932. *La France Économique : Annuaire pour* 1931. *Finances, Production, Commerce et Transports, Questions Sociales, Population, Prix.* C. RIST and others.

JULY–AUGUST, 1932. *Une théorie positive du salaire.* G. PIROU. *Réflexions sur les crises.* R. WOLFF. *L'économie mathématique d'après l'œuvre comparée de ses représentants les plus typiques : A. Cournot, L. Walras, V. Pareto.* F. BOMPAIRE. *Essai d'une classification économique des entreprises.* G. LASSERRE. *Le machinisme et l'agriculture française.* C. HÉRISSON.

Journal des Économistes.

JULY, 1932. *Le Malaise économique mondial.* M. CARSOW. *L'Industrie sidérurgique.* R. J. PIERRE.

OCTOBER, 1932. *Une période de conversions.* F. PAYEN. *La Crise économique en France.* M. GARSON. *Le Canada.* R. J. PIERRE.

Revue de L'Institut de Sociologie.

JULY, 1932. *Le problème de la théorie des crises.* A. LABRIOLA.

Schmollers Jahrbuch.

JUNE, 1932. *Politik und Weltkrise.* H. VON BECKERATH. *Zur Lage der Sowjetwirtschaft.* P. BERKENKOPF. *Das Verteilungs- und Kostenproblem in einer vertrusteten Industrie.* E. SCHNEIDER. *Die Anschauung von Volk und Staat in Friedrich Lists Jugendschriften.* W. VON SONNTAG. *Die Hochschulstatistik.* P. FLASKÄMPER. *Der proletarische Sozialismus von Werner Sombart.* W. ZIMMERMANN.

AUGUST, 1932. *Bemerkungen zum Problem der proletarischen Führerkontrolle in der bolschewistischen Staatswirtschaft.* W. KOCH. *Das Goltz'sche Gesetz.* F. OPPENHEIMER and P. QUANTE. *Die Anfänge der englischen Zentralverwaltung.* M. WEINBAUM.

Zeitschrift für Nationalökonomie.

JULY, 1932. *Der gegenwärtige Stand der reinen Theorie der Finanzwissenschaft in Italien.* I. *Teil.* M. FASIANI. *Ertragswert und Kostenwert.* W. VLEUGELS. *Der Behaviorismus.* F. SANDER.

Jahrbücher für Nationalökonomie und Statistik.

JULY, 1932. *Die Leibeigenschaft in Russland und die Agrarverfassung Preussens im* 18 *Jahrhundert.* J. KULISCHER. *Das Kreditpolitik des Reiches nach* 1924. J. JESSEN.

AUGUST, 1932. *Der Interventionismus als Ursache der Wirtschaftskrise.* O. CONRAD. *Die methodischen Grundlage der Lohntheorie.* S. WENDT. *Die mathematische Methode und die österreichische Schule der Volkswirtschaftslehre.* O. WEINBERGER.

SEPTEMBER, 1932. *Verbrauch und Krise.* W. HELLER.

OCTOBER, 1932. *Der Begriff Sozialpolitik.* F. LÜTGE. *Die Fortbildung der wirtschaftlichen Genusslehre.* C. RIEDENAUER.

Zeitschrift für die gesamte Staatswissenschaft.

AUGUST, 1932. *Verfassungsrecht und Sozialversicherung.* R. A. MÉTALL. *Keynes' Geldlehre.* B. JOSEPHY.

OCTOBER, 1932. *Frankfurts Wirtschaftsleben im Mittelalter.* F. BOTHE. *Zur Problematik der Agrarkrisen.* K. RITTER. *Wirtschaftsliche Heimatkunde in Wissenschaft und Unterricht.* J. JASTROW.

Vierteljahrshefte zur Konjunkturforschung.

SONDERHEFT 28. *Verbrauchereinkommen und Landwirtschaft.* F. BAADE. *Einkommen und Fleischverbrauch.* W. BAUER.

SONDERHEFT 29. *Stand und Ursachen der Arbeitslosigkeit in Deutschland.* A. REITHINGER.

Archiv für Sozialwissenschaft und Sozialpolitik.

AUGUST, 1932. *Probleme der dänischen Währungspolitik.* C. IVERSEN. *Zur Rundfrage über "Substanzverluste."* J. MARSCHAK and H. NEISSER. *Die Natürlichen Ursachen der Wirtschaftsgeschichte.* K. A. WITTFOGEL.

OCTOBER, 1932. *Bevolkerungsdruck in Ostasien.* A. REICHWEIN. *Kartelle under dem Druck der Krise.* J. DOBRETSBERGER. *Erfolgsnormen und Erfolgsgesetze.* G. ICH-HEISER.

Weltwirtschaftliches Archiv.

OCTOBER, 1932. *Staatliche Strukturwandlungen und die Krisis des Kapitalismus.* W. EUCKEN. In old countries, the crisis is not due to economic causes, but to changes in home and foreign political structure, especially to the increasing influence of the masses. This has prevented the post-war restoration of peace conditions. Political influence on the price system has impeded the economic management, and the conditions of the peace treaties have been an unfavourable influence. In newer countries like Russia, the State has been the instrument of the advance of capitalism. *Zur theoretischen Analyse der Weltwirtschaftskrisis.* G. DEL VECCHIO. The crisis gives new problems to theory, but confirms the view that crises are the results of economic progress in a capitalist system. The international phenomena which preceded the crisis of the Pound show that the traditional schema of crises is applicable under recent conditions. *The Doctrine of Comparative Costs.* J. VINER. An account of the origin and development of the doctrine of comparative costs. It distinguishes between the doctrine as an explanation of the phenomena of international specialisation and the doctrine as laying down a rule of conduct in commercial policy. The criticisms of the doctrine made by Cournot, Sidgwick, Pareto, Graham and others are examined, and the question of its dependence on a real cost theory of value is discussed. An attempt is made to show how the doctrine can be reformulated so as to make provision for varying costs, differences of wages in different occupations, trade between more than two countries and in more than two commodities, transportation costs, and the use of other factors of production than labour. *Lohnhöhe und Beschäftigungsgrad im Marktgleichgewicht.* H. NEISSER. The question is raised whether in a given position of factors of production, by simple adjustment within a stationary economy, full employment of the factors can be assured; especially whether, with a given condition of capital, unemployment can be met by sufficient fall in wages. The prevailing view, which gives an affirmative answer, is incorrect. The classical views, and those of Cassel, are discussed. *Die Industrialisierung Russlands.* A. PREDÖHL. The conditions have for some time been favourable, the chief problem being the capacity of the market. Apart from economic frictions in development, the expansion has acquired a wider range than the Russian market, but world prices have been against the exporters. The capacity of the people sets a limit to the advantages to be otherwise got from higher organisation and lower costs. The Russian experiment had begun to develop in a lower degree in the West, but has special reference to the expansion of the East. *Gruppenautarkie und Freihandel im südosteuro-*

päischen Raum. C. BRINKMANN. *Der Ruf nach Autarkie in der deutschen politischen Gegenwartsideologie.* F. HOFFMANN. *Die Theorie der Kapitalflucht.* F. MACHLUP. Only *liquid* capital can be the subject of flight into other countries. There are therefore natural limits, which are examined as a problem of collecting. Without central bank credits the flight of capital can cause scarcity on capital markets, enforced exports, failures of debtors and banks, but not a lack of foreign exchange. A detailed study of the possibilities of collecting shows that the extent of flight of capital is mostly over-estimated and also that the usual defensive policy is wrong.

Russlands Zahlungsbilanz und Zahlungsverkehr mit dem Ausland. E. M. SHENKMAN. The basic tendencies in the development of Russia's foreign trade. Social and economic limits to the growth of exports. The influence of the revolutionary changes in economic life upon the trend of foreign trade. Inevitability of a trade deficit. The structure of Russia's balance of payment during the period 1924–31, and the part played by foreign credits in making good the trade deficit.

De Economist.

JUNE, 1932. *De betrekkingen tusschen Goud- en Zilverwereld.* W. J. L. VAN ES. The writer discusses the recent history of variations in the value of gold and silver and the relations between the "gold-world" and the "silver-world." By a kind of optical illusion, each country is apt to consider its own standard as fixed and others as variable. We tend, for various reasons, to under-estimate the importance of the "silver-world." Figures and statistics are cited to prove the steadiness of prices in China after 1926. "Gold has thus been an entirely unreliable measure of value, while silver for the silver-world has shown great steadiness of value." The cause of the greater steadiness of silver in silver countries, compared to that of gold in gold countries, is to be found in the fact that the constant extension of the gold-standard since 1850 and the economic development of the gold-world were much stronger than the production of gold, so that resort had to be made to credit extensions; whereas the increased production of silver could easily be absorbed, apart from silver coinage in gold countries, by, *e.g.*, the silver and chemical industries and the needs of the silver world. The article underlines the competition to which gold countries are exposed from the side of silver countries. There is little hope of recovery of the gold-world unless gold returns to the value of 1929. The possibility of a standard based on raw materials and of a "managed currency" is discussed. It is not silver but gold that requires to be stabilised. *Economische nood-politiek tot vermeerdering van koopkracht.* EMILE VERVIERS. In continuation of an article in the April number practical conclusions are drawn as to the measures to be taken in periods of depression. All such measures are directed to the increase of purchasing power. In the last instance (see previous article) the only means of increasing purchasing power is to increase production. Where new production is aimed at, (i) it must not be in a field where there is already over-production; (ii) there must be a demand for the new products; (iii) the cost of production must be such that the product will come within as wide a circle of purchasers as possible.

Measures taken may be either direct or indirect. Under direct measures come (*a*) premiums on production, and (*b*) public works. Premiums on production are always anti-economic. They are generally given where there is already over-production, and may result not in increased purchasing power, but in transfer of purchasing power from the taxpayer to the producer. Policy with regard to public works is also discussed. Under indirect methods come various forms of credit extensions. "Premiums on production have necessarily reference to industries with over-production; investment policy, on the contrary, has always reference to industries where remunerative opportunities of work and production are possible. The former are thus essentially premiums on over-production; investment policy directly attacks over-production, since over-production in one field can only be got rid of by purchasing power which arises from production in another field. So that premiums attack purchasing power and intensify the depression; investment policy, on the other hand, increases purchasing power and mitigates the depression." In conclusion, the question of the level of wages is discussed.

JULY AUGUST, 1932. *De Wet der verminderende meeropbrengsten ten opzichte van het Kapitaal I.* R. VAN GENECHTEN. "Two kinds of technical improvements must be distinguished. The first and most interesting are those which lead to the result that labour, whether by shorter or longer roundabout methods of production, is applied with considerably greater results. The application of these inventions, which are rare, raises the whole economic life to a higher level. The second kind of discoveries, which consist in a better control of a natural force which man already has in his power . . . only yields diminishing returns, except when this better control leads to a larger application of the natural forces, whereby the series of diminishing returns may be changed at a stroke to a higher level, whereupon there is again a return to a new series of diminishing returns." *De Koffievalorisaties: Geschiedenis en Resultaten.* TH. VAN LUYTELAER and J. TINBERGEN. A history of the restrictions on the supply of coffee and of price control during the last twenty-five years. *Het Nikkel-Vraagstuk.* C. A. VERRIJN STUART. A Commission was appointed in April 1929, by the Ministers of Finance and of the Colonies, to consider the expediency of replacing silver by nickel coins in the currency of Holland and of the Dutch possessions. The Commission, following the financial crisis of September last year, dissolved without reporting. Professor Verrijn Stuart, a member of the Commission, explains the situation, and publishes what he had written as a minority report in favour of replacing silver by nickel coins.

Giornale degli Economisti.

JUNE, 1932. *Contributo allo studio degli effetti dell'imposta generale sul reddito.* R. FUBINI. A continuation of the article in the May number of the *Giornale* dealing with the effects of a general tax on income. The writer is concerned chiefly with the disputed problem of the double taxation of saving, with the question whether the imposition of a general (proportional) income tax would lead to a rise in the general level of prices, and with the effect of such a tax on particular prices. *I consorzi industriali in Italia.* G. PEJA. A

theoretical article on the causes and characteristics of the combination movement in Italy. *Le modernità delle dottrine del Romagnosi in politica economica.* A. G. CANINA.

JULY, 1932. *La rivoluzione dei prezzi a Milano nel xvi e xvii secolo.* A. FANFANI. The writer gives tables showing the movement of prices in Milan from approximately 1500 to 1629 of the following articles: hay, wheat-straw, meat, fish and candles. While these prices showed marked fluctuations in the first half of the sixteenth century, they all rose rapidly between 1550 and the end of the century—for reasons that can only be explained by monetary causes, *i.e.* by the increase in the supply of silver. *Appunti sul "costo monetario dell'uomo."* T. ZERBI. A criticism of a recent work by G. Pietra and G. Ferrari entitled *Il costo monetario dell'uomo,* in which the attempt was made to compute the money costs of production of a "man." *I fondamenti della economia corporativa.* G. BRUGUIER. A critical analysis of some recent writings of U. Spirito in which the latter attacks the prevailing systems of economics and demands their replacement by a new system of corporative economics. *Il secondo convegno di studi sindacali e corporativi.* G. BASSANI.

AUGUST, 1932. *Un nuovo trattato di politica economica internazionale.* UN LETTORE QUALUNQUE. A long review article commenting on the recent work by Professor V. Porri, *Corso di politica economica internazionale.* The writer of the article commends the book for its high standard as an academic treatise but criticises it, along with all other similar economic works, on the ground that it is too abstract and does not make enough use of what the Americans term the "institutional" approach. *I debiti dell'agricoltura.* N. MAZZOCCHI-ALEMANNI. *L'elasticità della domanda e la traslazione dell'imposta in regime di monopolio.* PROFESSOR L. ROSSI, using simple algebraic equations, lays down the following propositions: (*a*) a specific tax on a monopoly will be shifted to a greater degree the less is the elasticity of demand; (*b*) the shifting of an *ad valorem* tax is independent of the elasticity of demand; (*c*) the tax will be shifted to a less degree where costs are increasing than where they are decreasing.

SEPTEMBER, 1932. *Due esperienze monetarie.* L. FEDERICI. An account, illustrated by a number of statistical tables, of monetary changes and policy in England and the United States since September 1931. *Osservazioni sulla teoria delle dimensioni economiche.* G. H. BOUSQUET. The translation from French of part of a forthcoming work by the writer, entitled *Institutes de science économique. Formazione e investimento del risparmio.* B. GIOVENALE. A brief discussion of recent literature concerned with the relation between saving and investment. *Diritto finanziario e diritto tributario in Italia.* G. C. DONVITO.

La Riforma Sociale.

SEPTEMBER–OCTOBER, 1932. *Schemi teorici ed "exponibilia" finanziari.* M. FASIANI. *Il fondo per la stabilizzazione della sterlina.* PROFESSOR A. CABIATI discusses the nature and *modus operandi* of the Exchange Equalisation Fund. He concludes: "the stabilisation point of the English currency does not depend on the situation of England alone, but depends on that of the

whole world, including those countries which in their turn will stabilise their own money, having abandoned the gold standard by legislative action or as a matter of fact. The English position depends further upon the commercial policy which will be adopted by the United Kingdom. It is the wisdom of these future measures and not the existence of the 'Fund' which will determine whether this is the last penalty which the English will pay for the monetary and financial errors which were initiated in 1925." *Aspetti della crisi australiana.* M. Salvadori. *I concimi azotati in Italia e la difesa del prodotto nazionale.* A. di Staso. *Bardature della crisi.* Professor L. Einaudi inveighs against the rigidity of large-scale undertakings and the mistaken measures adopted by Governments and great industrial associations to escape from the effects of a crisis which can only be intensified by building up artificial restrictions. He pins his faith to the elasticity and flexibility of the small man working himself with his family and adjusting his expenditure to his income and his activities to the real facts of the situation. The way out of the crisis will not come from any *deus ex machina* from outside, such as a revival of trade in the United States, but from the efforts and enterprise within a country of individual employers who are the engineers of their own prosperity.

There is appended to this number of *La Riforma Sociale* a complete bibliography of the works of Professor A. Loria.

NEW BOOKS

British.

Ashley (A.). William James Ashley: a Life, by his daughter Anne Ashley, with a chapter by J. H. Muirhead. P. S. King. 8½". Pp. 176. 8*s*. 6*d*.

Bailey (S. H.). The Framework of International Society. Longmans, Green. 6½". Pp. 92. 2*s*.

Benham (F.). British Monetary Policy. P. S. King. 7". Pp. 116. 5*s*.

"British Indian." Finance and Commerce in Federal India. Oxford University Press. 7¼". Pp. 171. 5*s*.

Cassidy (H. M.). Unemployment and Relief in Ontario: a survey and report under the auspices of the Unemployment Research Committee of Ontario. Toronto: J. M. Dent. 9". Pp. xiii + 290.

Clark (Colin). The National Income, 1924–31. Macmillan. 8½". Pp. 167. 8*s*. 6*d*.

Cole (G. D. H.). The Intelligent Man's Guide through World Chaos. V. Gollancz. 7¼". Pp. 680. 5*s*.

Dickinson (H. D.). Institutional Revenue: a study of the influence of social institutions on the distribution of wealth. Williams and Norgate. 8½". Pp. 264. 10*s*. 6*d*.

Dowdell (E. G.). A Hundred Years of Quarter Sessions: the government of Middlesex from 1660 to 1760. Cambridge University Press. 9". Pp. lxxv + 215. 15*s*.

EINZIG (P.). Montagu Norman: a study in financial statesmanship. Kegan Paul. 8½". Pp. 255. 10*s*. 6*d*.

GINSBERG (M.). Studies in Sociology. Methuen. 7½". Pp. 211. 6*s*.

HAMILTON (HENRY). The Industrial Revolution in Scotland. Clarendon Press. 8¾". Pp. 300. 15*s*.

HAWTREY (R. G.). The Art of Central Banking. Longmans, Green. 8½". Pp. 464. 18*s*.

HICKS (J. R.). The Theory of Wages. Macmillan. 8½". Pp. 247. 8*s*. 6*d*.

HISKETT (W. R.). The Tyranny of Gold. Williams and Norgate. 7¼". Pp. 108. 2*s*. 6*d*.

HOBSON (J. A.). From Capitalism to Socialism. Hogarth Press. 7¼". Pp. 53. 1*s*. 6*d*.

HODGSON (R. A.). An Introduction to International Trade and Tariffs. Pitman. 8½". Pp. 191. 6*s*.

HUNT (W.). Man and Wealth: a first handbook of economics. Christophers. 7¼". Pp. 145. 2*s*. 6*d*.

KISCH (SIR C. H.). The Portuguese Bank Note Case: the story and solution of a financial perplexity. Macmillan. 8½". Pp. 284. 10*s*. 6*d*.

LAWTON (L.). An Economic History of Soviet Russia. Macmillan. 8½". 2 vols. 25*s*.

LIEFMANN (R.). Cartels, Concerns, and Trusts. English edition, with Introduction by D. H. Macgregor. Methuen. Pp. 380. 21*s*.

McDOUGALL (W.). World Chaos the Responsibility of Science. Kegan Paul. 7¼". Pp. 119. 3*s*. 6*d*.

MEGRAH (M.). The Banker's Customer. Butterworth. 8½". Pp. 206. 7*s*. 6*d*.

MOGI (S.). Otto von Gierke: his political teaching and jurisprudence. P. S. King. 8½". Pp. 291. 15*s*.

NEAL (L. E.). Retailing and the Public. Allen and Unwin. 7¾". Pp. 191. 7*s*. 6*d*.

SMITH (H. A.) (Ed.). Great Britain and the Law of Nations: a selection of documents illustrating the views of the Government in the United Kingdom upon matters of international law. Vol. I. States. P. S. King. 8½". Pp. 416. 16*s*.

SPALDING (W. F.). Foreign Exchange and Foreign Bills in Theory and Practice. 8th ed. Pitman. 8½". Pp. 339. 7*s*. 6*d*.

THURNWALD (R.). Economics in Primitive Communities. Oxford University Press. 8¾". Pp. 314. 25*s*.

WEBB (S. and B.). Methods of Social Study. Longmans, Green. 8½". Pp. 263. 8*s*. 6*d*.

WESTERGAARD (H.). Contributions to the History of Statistics. P. S. King. 8½". Pp. 280. 12*s*. 6*d*.

YOUNG (ARTHUR). Tours in England and Wales (selected from the Annals of Agriculture). London School of Economics series of reprints of scarce tracts, No. 14. 8½". Pp. 330.

American.

BROOKINGS (R. S.). The Way Forward. New York: Macmillan. $7\frac{1}{2}''$. Pp. 97.

CHASE (S.). A New Deal. New York: Macmillan. Pp. 258. 10*s*.

COLCORD (J. C.), KOPLOVITZ (W. C.) and KURTZ (R. H.). Emergency Work Relief, as carried out in twenty-six American Communities, 1930–31, with suggestions for setting up a program. New York: Russell Sage Foundation. 9″. Pp. 286. $1.50.

DENNIS (L.). Is Capitalism doomed? New York and London: Harper and Bros. $9\frac{1}{4}''$. Pp. 328.

HARDY (C. O.). Credit Policies of the Federal Reserve System. Washington, D.C.: Brookings Institution. 8″. Pp. 374. $2.50.

HOGG (M. H.). The Incidence of Work Shortage. Report of a survey by sample of families made in New Haven, Connecticut, in May–June 1932. New York: Russell Sage Foundation. 9″. Pp. 127. $2.50.

KUCZYNSKI (R. R.). Bankers' Profits from German Loans. Washington: Brookings Institution. 8″. Pp. 228.

NERLOVE (S. H.). A Decade of Corporate Incomes, 1920–29. Chicago (London, Cambridge University Press). 9″. Pp. 76. 5*s*. 6*d*.

SMITH (J. G.) (Ed.). Facing the Facts: an economic diagnosis by E. W. Kemmerer, H. L. Lutz, F. W. Fetter, C. R. Whittlesley, S. E. Howard, J. G. Smith, F. A. Fetter, L. T. Fournier, F. H. Dixon, J. D. Brown, A. M. McIsaac, D. A. McCabe. New York: Putnams. $8\frac{1}{2}''$. Pp. 372. $3.

TAUSSIG (F. W.) and JOSLYN (C. S.). American Business Leaders: a study in social origins and social stratification. New York and London: Macmillan. $8\frac{1}{2}''$. Pp. 319. 18*s*.

WRIGHT (Q.) (Ed.). Gold and Monetary Stabilisation. [Lectures on the Harris Foundation 1932.] By J. Viner, G. Haberler, H. P. Willis, L. D. Edie, J. H. Williams. Chicago: University Press (London: Cambridge University Press). $7\frac{1}{2}''$. Pp. 174. 11*s*.

French.

DECHESNE (L.). Histoire économique et sociale de la Belgique. Paris: R. Sirey. 10″. Pp. 525. 50 *fr*.

FAÀ DI BRUNO (G.). Quelques aspects du développement économique de la Sardaigne sous le régime fasciste. Paris: R. Sirey. 10″. Pp. 365. 50 *fr*.

NAVACHINE (D.). La crise et l'Europe économique. I. Les faits. II. Échanges, production et banques. Paris: F. Alcan. $9\frac{3}{4}''$. 2 vols. Vol. I, 30 *fr*. Vol. II, 25 *fr*.

German.

BRAEUTIGAM (H.). Wirtschaftssystem des Nationalsozialismus. Berlin: Carl Heymanns Verlag. $8\frac{3}{4}''$. Pp. 97.

BOLZA (H.). Die Wirtschaftskrise. Berlin: E. S. Mittler. 10″. Pp. 74.

EULENBURG (F.). Grossraumwirtschaft und Autarkie. Jena: G. Fischer. 9½". Pp. 74. 2 *m.*

HOFFMANN (A.). Wirtschaftslehre der kaufmännischen Unternehmung. Betriebswirtschaftslehre. Leipzig: Hans Buske. 9½". Pp. 812. 16·50 *m.*

JASNY (N.). Der Schlepper in der Landwirtschaft, seine Wirtschaftlichkeit und weltwirtschaftliche Bedeutung. Berlin: Paul Parey. 10". Pp. 154.

LUTHER (H.). Wirtschaftsfragen der Gegenwart. Jena: G. Fischer. 9½". Pp. 76. 2 *m.*

RITTERSHAUSEN (H.) Das andere System. Ein Wirtschafts- und Finanzvorschlag in vier Gesetzentwürfen. Berlin: Georg Stilke. 8¼". Pp. 135.

SOMARY (FELIX). Krisenwende? Berlin: S. Fischer. 8". Pp. 58.

TISMER (A.). Grenzen der Diskontpolitik. Leipzig: Duncker und Humblot. Pp. 160. 8 *m.*

ZWEIG (F.). Die vier Systeme der Nationalökonomie. Universalismus—Nationalismus—Liberalismus—Sozialismus. Berlin: Carl Heymanns Verlag. 9"? Pp. 147.

Italian.

CARLI (F.). Studi di storia delle dottrine economiche. Padova: C.E.D.A.M. 10". Pp. 147. 17 *lire.*

CROSARA (A. A.). Numero di venditori independenti e prezzo. Padua. 9". Pp. 25. 4 *lire.*

CROSARA (A. A.). Smercio e prezzo. Libro I. Padua. 9". Pp. 92. 22 *lire.*

DA EMPOLO (A.) Note sulla tassazione del risparmio. Messina: D. Anna. Pp. 30. 5 *lire.*

DEL VECCHIO (G.). Cronache della lira in pace e in guerra. Milan: Treves-Treccani-Tumminelli. 8". Pp. 515. 30 *lire.*

FANFANI (A.). Le origini dello spirito capitalistico in Italia. Milan: Soc. Editrice "Vita e Pensiero." 10". Pp. 179.

FOSSATI (E.) Economisti ungheresi e economisti italiani. Padua: C.E.D.A.M. Pp. 65. 15 *lire.*

FUBINI (R.) Del concetto di imposta generale sul reddito. Citta di Castello: Leonardo.

GANGEMI (L.). Svolgimento del pensiero economico I. Dalle origini alla scuola classica. Milan: Treves-Treccani-Tumminelli. 8". Pp. 357. 20 *lire.*

GRIZIOTTI (B.). Elementi di scienza delle finanze ad uso delle scuole. Florence: Bemporad & Figlio. 8". Pp. 255. 13.50 *lire.*

NINA (L.). Le finanze pontificie nel medioevo. Parte III, Quadro dei tributi temporali. Milan: Treves-Treccani-Tumminelli. 8". Pp. 320. 20 *lire.*

PORRI (V.). Principii di scienza economica I. Turin: Giappichelli. 10". Pp. 382. 35 *lire.*

PUGLIESE (M.). La finanza e i suoi compiti extra-fiscali negli stati moderni. Padua: C.E.D.A.M. 10″. Pp. 259. 32 *lire.*

RICCA-SALERNO (P.) La finanza come problema di scienza. Messina: Grafiche. Pp. 85.

Official.

LEAGUE OF NATIONS.

Review of World Production, 1925–31. London: Allen and Unwin. 10½″. Pp. 159. 5*s.*

UNITED KINGDOM.

An Industrial Survey of the Lancashire Area (excluding Merseyside) made for the Board of Trade by the University of Manchester. H.M.S.O. 9½″. Pp. 380. 6*s.*

An Industrial Survey of the North-East Coast Area made for the Board of Trade by Armstrong College, Newcastle-upon-Tyne. H.M.S.O. 9½″. Pp. 505. 7*s.* 6*d.*

Committee of Enquiry on the Post Office 1932 Report. H.M.S.O. Cmd. 4149. 9½″. Pp. 42. 9*d.*

Economic Advisory Council. Committee on new industrial development. Report. H.M.S.O. 9½″. Pp. 29. 6*d.*

INDIA.

Poverty and Kindred Economic Problems in India. By G. Findlay Shirras. Calcutta. 9¾″. Pp. 57. 1*s.*

Review of the Trade of India, 1931–32. Calcutta. 9¾″. Pp. 299. 5*s.* 3*d.*